

Iraq orders attack on Iran after claiming jet raid on border guards

IRAQ'S Revolutionary Command Council yesterday ordered its armed forces to attack Iranian military targets after claiming Iranian jets had attacked Iraqi border forces.

IRAQI aircraft attacked Tehran international airport and nine other air bases, Baghdad Radio said. The High Command admitted the loss of a bomber and a fighter.

IRAN struck back with successful air attacks on two air bases, and shot down several Iraqi aircraft, President Bani-Sadr said on Tehran radio. Other reports from Iran said 200 Iraqi soldiers had been killed.

BOTH countries closed their airspace. Telecommunications with Iran were cut. The Tehran Government ordered a black-out.

IRANAIR cancelled all international flights until further notice. Internal flights to Tehran were diverted to Isfahan.

TEHRAN declared war zones in all its offshore waters. No merchant ships would be allowed to deliver cargo to Iraqi ports, and the Government would not accept responsibility if military communiques were violated, it said.

P. & O. cargo ship Strathclyde, 17,350 tons, was hit by seven bullets while leaving the Iraqi port of Basrah for Japan—the first reported incident involving a British ship. No one was hurt.

THE war-risk rating committee of the Institute of London Underwriters said cargo insurance premiums on ships travelling to either country would rise by 300 per cent from today.

SPOT MARKET price for crude oil were steady on the Rotterdam market because of the worldwide supply glut. Oil industry executives said oil stocks are at record levels.

IN MOSCOW, Pravda accused the U.S. of complicity in the crisis. Mr. Tareq Aziz, an Iraqi special envoy, began talks with Soviet leaders.

IN WASHINGTON, the State Department said the U.S. would not become involved and denied instigating the Iraqi attack. Officials said the dispute was not connected with the hostage crisis.

UN Secretary-General Dr. Kurt Waldheim appealed for an end to the fighting and a negotiated settlement. He said the situation was fraught with danger and unpredictable consequences.

War in Gulf threatens oil supplies

BY OUR FOREIGN STAFF

IRAQ AND IRAN were last night locked in an undeclared war threatening the vital oil supply routes.

Following a day of rapidly increasing conflict between the two main military powers in the Gulf, Iran announced a blockade of Iraq.

A communiqué from the Iranian joint chiefs of staff declared all waterways near

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Iraq and Iran: Fears revived, Page 18

Both Moscow and Washington have so far stood aside from the conflict. The U.S. urged caution while the Soviet Union accused the Americans of setting the Iraqis and Iranians against each other.

In military action during the day, Iraq claimed to have bombed 10 military bases deep inside Iran including Tehran's Mehrabad international airport. Iraq's State radio said last night that three weeks of air-ground and sea hostility had grown into a full-scale war.

Mr. Abol Hassan Bani-Sadr, Iran's President, said Iranian warplanes had successfully attacked two Iraqi bases. He claimed in a broadcast statement that at least six Iraqi MiG fighters had been shot down.

Earlier, a statement by Iraq's ruling Revolutionary Command Council said Iraq had been forced to order its armed forces "to undertake deterrent military operations in response to Iran's grave aggressive actions against our armed forces and



Iranian shores to be war zones. This would centre on the narrow Straits of Hormuz through which two-thirds of the free world's oil supplies pass.

Both sides blocked out their cities last night following air raids in which they claimed to have inflicted heavy casualties and damage on their opponents.

All air traffic to and from Baghdad and Tehran has been halted.

economic installations and by shelling Iraqi and foreign merchant ships.

Iraq said this followed two days in which Iran had tried to block its only access to the sea—the Shatt-al-Arab waterway.

said Iran would give Iraq a bitter lesson.

Although the details of each side's claims remained unconfirmed last night, the State Department in Washington agreed the conflict had intensified seriously involving intense air, sea and ground fighting.

Dr. Kurt Waldheim, the United Nations Secretary-General, appealed for restraint. Reports from Beirut said Mr. Yasir Arafat, leader of the Palestinian Liberation Organisation, was attempting to mediate.

The fighting represents the gravest threat to the future of Ayatollah Khomeini's theocratic Islamic State, because of the internal divisions the confrontation has provoked.

It also shows the intention of Mr. Saddam Hussein, the President of Iraq, to establish his country's supremacy in the Gulf.

As tension grew during the past 18 months, both sides have frequently called for the overthrow of the other's leaders. Until now, the conflict has

Continued on Back Page

also fell as hopes of lower interest rates receded. Gold shares, however, were a spectacular exception to the trend with the FT gold shares index rising an unprecedented 34 points to a record \$58.50.

On Wall Street the Dow Jones industrial average was however barely changed at mid-session.

Other precious metals markets followed the rise in gold. Spot silver finished \$2.50 per troy oz higher in London at \$23.95, its highest since March. Platinum climbed \$37 to \$732, while copper led rises among base metals on the London Metal Exchange.

On the London insurance market, underwriters are to increase insurance premiums on cargoes in ships bound to Iran by 300 per cent effective from today as a result of the increased war risk.

The spot market in Europe for both crude oil and oil products showed no immediate reaction yesterday to the Middle East conflict, largely because of the high level of oil stocks.

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Commodity News, Page 29
Mining News, Page 22

£ in New York

Sept. 19 previous

Sept. 19 previous
1 month £2.5538-5245-52.5825-52.55
3 months £0.98-0.91 dic. 1.97-1.92 dic.
12 months 2.70-2.55 dic. 2.90-2.80 dic.

NEWS SUMMARY

GENERAL

Top Polish officials to stand trial

A number of senior Polish Communist Party officials and businessmen are to stand trial on corruption charges. Some are thought to have been involved in trade with the West. Gdansk meeting, Page 2

Tiger kills again

Tiger which last month killed a keeper at Mr. John Aspinall's private zoo in Kent mauled to death a second keeper, Mr. Bob Wilson.

'Mole' caught

Mr. Tom Bingham, appointed by Mrs. Thatcher to find the source of Whitehall leaks, has identified one "mole," according to officials.

Petrol switch

Petrol industry set a September 1981 target date for the voluntary conversion of most petrol pumps from gallons to litres. Page 8

West Ham ban

West Ham United were banned from playing their next two home matches in European football at their ground after crowd trouble in Madrid last night.

Briefly ...

Armed raiders escaped with £20,000 in a robbery on the M1. Mrs. Thatcher arrived in Athens for a three-day official visit. Page 3

Torquay man was recovering after surgeons sewed back the end of his nose, bitten off in a fight.

Third suspected case of Legionnaire's disease was reported by Cleveland health authorities.

Two dissidents went on trial in Moscow charged with anti-Soviet activities.

Ak Royal began its final trip to a Scottish scrapyard.

Striking West Berlin railwaymen urged the West to take over the city's East German-run rail system. Page 3

BUSINESS

Gilts close 0.55 off

North Sea delays cause depletion policy change

BY RAY DAFTER, ENERGY EDITOR

DELAYS IN developing North Sea oil fields have led the Government to drop its plans to holdback the start of two commercial projects.

The decision has come at the same time as further hold-ups in production from the Tartan Field, north-east of Peterhead, have emerged.

Though no formal announcement has been made, the British National Oil Corporation is understood to have been told that it can go ahead with the development of its Clyde Field, east of Dundee. This project, expected to cost more than £1bn (£420m), was in danger of being delayed for at least a year under a scheme for regulating North Sea oil production, announced by Mr. David Howell, the Energy Secretary, in July.

Mr. Howell said he was considering holding back the exploitation of Clyde and Phillips Petroleum's Ton-Telma-Tiffey complex of fields in the T block, 150 miles north-east of Aberdeen, as part of an overall flexible depletion package.

The Government is expected to submit a development plan for Clyde in the middle of next year. The field, in block 30/17b, is thought to have between 100m and 125m barrels of recoverable reserves and to be capable of yielding up to 50,000 barrels a day from a fixed production platform.

But it is not known when the field will be brought on stream.

This will be decided in negotiations with the Government. It seems likely that the Government will switch from deferring the development of specific pro-

jects, more towards regulating the timing and pace of their production rates.

In Whitehall it was pointed out last night that the Energy Department had always intended to be flexible in the application of depletion measures. The delay of Clyde and the T block projects had not been firmly fixed.

The reason for Mr. Howell's apparent change of heart lies in the uncertainty about the level of UK oil production over the next few years. The latest Energy Department "Brown Book" of offshore statistics shows that UK output this year is likely to be 13 per cent lower than expected as a result of bad weather, accidents and delays to field development projects.

Two examples of delayed projects are British Petroleum's Buchan Field, the Tartan north-east of Peterhead, which was due on stream in the third quarter of last year, and Texaco's bigger Tartan Field, which was due to be producing oil this spring.

Buchan is expected to be commissioned in November. It is understood that Texaco still hopes to start production from Tartan before the end of the year.

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Petrol by the litre. Page 8
BP Chemicals changes, Back Page

the Clyde development programme.

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Massey in aid plea

By Robert Gibbons in Montreal

MASSEY - FERGUSON, the struggling Canadian farm equipment manufacturer, may not be able to continue operations unless the Canadian Government participates in its US \$600m (£251m) equity financing plan, the company has told its workforce.

Talking for the first time of possible shut-down, the management has written to its 7,000 Canadian employees asking them to contact their local Members of Parliament and impress on them the workforce's concern over the future of the company.

Massey said both the Federal and Ontario governments were actively considering whether they should become involved in the financing package. But they were worried by a lack of interest on the part of employees and the Canadian public.

Massey said it already had a commitment for about US \$300m towards the financing package, but "one condition is that a total US \$600m be committed before any equity

Continued on Back Page

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CHIEF PRICE CHANGES YESTERDAY

(Prices in pence unless otherwise indicated)

RISSES	Western Holdings	£49.5 + 6
Zandpan	80.5 + 101
FALLS
Treasury 12% 1984	£97.2 - 1	
Treasury 13% 2000-06	£101.4 - 1	
Beaston Clark	116.5 - 8	
Beecham	184.5 - 5	
Boots	245 - 6	
Dowty	231 - 10	
Emes	160 - 8	
Fisons	205 - 7	
Lever	116 - 6	
Leverett	126 - 6	
Lyng (Mitsue, L)	94 - 6	
Smiths Inds.	240 - 13	
Sykes (H)	28 - 7	
Tarmac	282 - 15	
Tate & Lyle	158 - 3	

EUROPEAN NEWS

Polish opposition criticised as Schmidt rebukes U.S.

BY LESLIE COLITT IN BERLIN

THE Soviet Union and its allies have intensified their attacks on Polish working people and the opposition movement in Poland, while Chancellor Helmut Schmidt of West Germany has indirectly criticised the U.S. Administration for spreading "demagogic reports" about alleged Soviet military movements aimed at Poland.

Communist Party newspapers throughout Eastern Europe yesterday carried verbatim accounts of a leading article in the Soviet Communist Party newspaper Pravda attacking West German and American aid for Alexander Dubcek.

elements agitating among the Polish working people and trying to drive a wedge in the workers' movement, to bring the country off the course of Socialism."

East Germany and Czechoslovakia, which border on Poland, are leading the Warsaw Pact's criticism of "anti-Socialist" and "counter-revolutionary" forces in Poland. They have recalled the "events" of 1968 in Czechoslovakia, when Soviet-led forces invaded that country and put an end to the reform Communist leadership of Alexander Dubcek.

Chancellor Schmidt called this an attempt to "pour oil on the fire," and said there was no reason for any dramatisation

Chancellor Schmidt, speaking in West Berlin, said he regretted "demagogic reports" of Soviet forces menacing Poland by massing in East Germany and the western Soviet Union. Last week U.S. officials, including Mr. Edmund Muskie, the Secretary of State, drew attention to reports from the Pentagon's Defence Intelligence Agency and indicated that Moscow was putting military pressure on Poland.

Western allied sources in Berlin confirm that their military missions in Potsdam, East Germany, have seen no signs of unusual military activity after the Warsaw Pact's military manoeuvres that ended in East Germany ten days ago.

East Germany's leading foreign affairs weekly, *Horizont*, has warned Poland that any search for a "middle way" between capitalism and Communism encourages the "political pluralism

whatsoever." He said his Government had "no knowledge" of any troop movements in East Germany.

The Prague Communist Party, *Tribuna*, recalled Czechoslovakia in 1968 and said "anti-Socialist forces" again want to "mislead" the workers, destroy the "unity" of the working class, bring discredit upon the "leading role" of the party, "legalise" the opposition and thus create conditions for

"counter-revolution to impudently raise its head."

The publication said the "events" in Hungary in 1956 and in Czechoslovakia in 1968 taught the international Communist movement "important lessons."

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Leaders of free unions meet in Gdansk

WARSAW — Leaders of Poland's new independent unions met in Gdansk yesterday to discuss organisation problems and how to divide the national movement among the regions.

A representative of the movement at the Gdansk headquarters said delegates from 36 independent unions groups attended the meeting, the second since the Polish Government signed agreements on free trade unions three weeks ago.

The independent unionists set up a national movement at their first meeting in Gdansk last Wednesday, and their leaders plan to register it in a Warsaw court late this week.

Yesterday's meeting was expected to confirm the final details of the movement's statutes as well as its division into regions.

The movement, led by Mr. Lech Walesa, the 37-year-old electrician who spearheaded last month's strikes in northern Poland, has agreed to adopt the statute of the independent Gdansk Trade Union.

Mr. Kuron repeated his iron rule: "Don't burn party committees, create your own committees." He said the rulers have lost their "monopoly on decision making" and their authority within the population.

Mr. Kuron said he does not believe the Polish leadership will risk democratisation and admitted that forces could be unleashed which the authorities might no longer be able to harness. He was pessimistic that the Polish leaders could come up with a reform programme which would "satisfy the people."

Thus, he argued, the "opposition must initiate the movement toward democratisation." He acknowledged the importance of the Soviet Army in all KOR's calculations but said the Soviet Union would not "dare an armed intervention" as long as Poles do not overthrow the Polish Communist Party which is "obedient to Moscow."

As for the kind of Socialism which might develop in Poland, he said he does not agree with "any system" which currently practices Socialism and is called Socialist.

The difficulty for Mr. Kuron is knowing how far KOR can press the badly weakened Communist Party without bringing about what all sides refer to as a "national disaster."

Reuter

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Thatcher opens talks with Greek leaders

BY OUR ATHENS CORRESPONDENT

MRS. MARGARET THATCHER, the British Prime Minister, arrived in Athens yesterday—the first British Head of Government to visit Greece since 1958—for three days of discussion with Greek leaders.

Mrs. Thatcher opened her talks with Mr. George Rallis, the Greek Prime Minister, shortly after her arrival. The talks will be continued today in the presence of Mr. Ioannis Boutos, the Minister of Coordination, Mr. Constantine Mitsotakis, the Foreign Minister, and Mr. Evangelos Averof-Tossitas, the Minister of Defence.

Mrs. Thatcher will later meet Mr. Andreas Papandreou, the leader of the main Opposition party, the Pan-Hellenic Socialist Movement (PASOK), which opposes both Greece's EEC entry and the return to NATO's military wing.

Mrs. Thatcher will also call on President Constantine Karmanlis.

Speaking on her arrival Mrs. Thatcher said: "I hope that Mr. Rallis will bring me up to date over the question of renewing Greek participation in the military structure of NATO, to which we attach the greatest importance."

Greece's return to the military wing of NATO has been blocked by Turkey because of the disputes over territorial rights in the Aegean.

Mrs. Thatcher's talks with Mr. Rallis will also cover questions of "East-West" relations and detente.

Also to be reviewed will be the resumption of the inter-communal talks in Cyprus on which the two countries are known to hold similar views.

The economic talks will be based on a "memorandum of understanding" for industrial and economic co-operation signed between the two countries last November. It is understood Mrs. Thatcher will discuss in general terms a package deal under which Britain would supply 500,000 tons of North Sea oil and 250,000 tons of coal a year to Greece.



George Rallis:

talks cover wide areas

Two sides continue Cyprus negotiations

BY METIN MUNIR IN ANKARA

THE GREEK and Turkish Cypriots will tomorrow begin discussing the lifting of the United Nations' economic blockade on northern Cyprus.

Last week, when the two communities began their first talks in 16 months, they agreed that priority should be given to the return of up to 35,000 Greek Cypriot refugees to the Varosha area of Famagusta.

The Turkish side is now studying the proposals on the refugees given by the Greek Cypriots when the inter-communal talks resumed last week at the Ledra Palace hotel in the no-man's land between the two communities.

Officials involved in the talks said that both sides are now settling in for a long winter of negotiations, although the general belief is that after the military take-over in Turkey the new regime might press for an early settlement.

Portugal battles with EEC over aid issue

BY JIMMY BURNS IN LISBON

PORUGAL and EEC member states have been pitched into a period of intense diplomatic haggling over the still-unresolved issue of aid ahead of Lisbon's accession to the Community.

The EEC Commission in Brussels early this summer agreed in principle that Portugal should receive financial help from the EEC over the next three years to boost the Portuguese economy in the period leading up to enlargement of the Community.

The Nine, however, have so far struggled without success to reach agreement on how much aid to offer Portugal. Several months ago, Lisbon asked for €260m (425m units of account), while the Commission subsequently proposed €213m (350m ua).

As it was clear at a Council of Ministers meeting in Brussels last Tuesday that there was no prospect of an agreement, Foreign Ministers shelved discussion of the issue. But it is clear that a majority favours a sum lower than the Commission proposed and much lower than Portugal requested.

As a result, it is thought that an eventual compromise may be in the region of €122m (200mua). This may be seen in Lisbon as ungenerous, but it reflects among other things the pressure on the EEC budget and the reluctance of some states, notably Britain and France, to make major new commitments of this kind on the air front.

Both countries have argued instead that the greatest share of the aid possible should be in the form of loans from the European Investment Bank.

This view has been strongly challenged by Portuguese officials, both on financial and political grounds.

They want the largest share of the aid to be in the form of a direct grant, in order to avoid aggravating Portugal's debt burden. Portugal has in the past had to pledge its gold reserves in collateral for loans contracted from the EIB. The large proportion of its gold reserves are now free.

Government feels that to clinch the pre-accession aid before the October 5 general election would be a major asset during a campaign that has stressed the success of Portugal's negotiations with the EEC.

In contrast to Spain, Portugal has now indicated that her accession to the Community is possible according to the scheduled date of January 1983. Portuguese Ministers claim that they have received assurances in this respect from all member states.

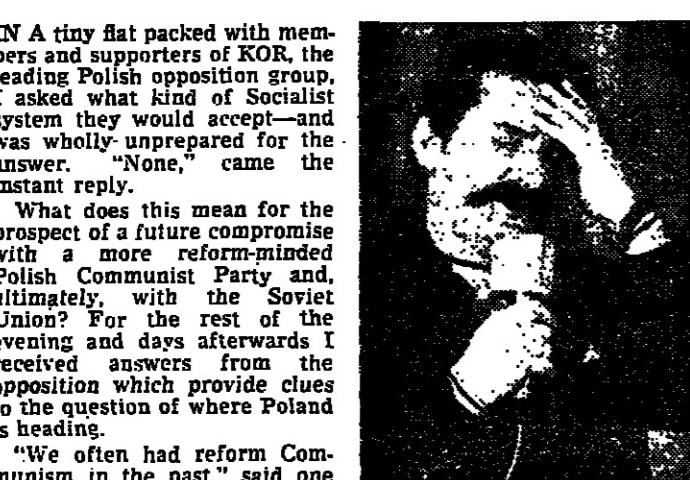
The aid package is aimed at backward areas of the Portuguese economy, including infrastructure, agriculture, and medium- and small-sized industries. The EEC has until now been in broad agreement that Portugal's economic under-development might accentuate the Community's heterogeneity and complicate decision-making after enlargement.

Since 1976 Portugal has received a total of 350 units of account in two major instalments from the European Investment Bank. The first was in the form of emergency credit, the second part of the financial protocol agreement signed with the EEC.

Major diplomatic efforts to secure additional aid have been spearheaded in recent weeks by Sr. Drago Freitas do Amaral, the Portuguese Foreign Minister. Sr. Amaral has been using the strong links between his Christian Democratic party and Britain's Conservative party to impress on the UK Government the political advantages of a speedy solution to the problem.

BRUSSELS — Unemployment in the nine nations of the EEC hit 6.3 per cent of the workforce in August, a new high and a continuation of Western Europe's bleak employment picture, according to statistics released yesterday.

AP



Lech Walesa: organising free unions under Communism

"The problem is that the reformers in the Communist Party still want to preserve the one-party system," said another KOR member. He and others in the opposition regard the independent trade union as only the first step towards a more pluralistic society.

"Besides, there is no Dubcek in sight here," offered another KOR supporter, who said the "system has no ideologists any more, only tanks."

The Polish opposition, consisting mainly of a few hundred KOR members of whom perhaps 30 are activists (aged chiefly between 19 and 35), is not a homogeneous group. The other human rights organisation, ROPCO, is highly factionalised

His activity in the underground was typical of the illegal work of many KOR members to this day. A fellow KOR member observed that "we Poles like to do things openly. But don't forget that during the second world war Poles had the best conspiratorial network in Europe. Some of this spirit is still alive."

Although Mr. Borusewicz was associated with YP, which has pre-war roots, he rejected its hyper-nationalist aspects as a liberal. "We tolerate each other's differences," he noted, and acknowledged that most KOR members have links with the "leftist traditions" of Poland.

As for the kind of Socialism which might develop in Poland, he said he does not agree with "any system" which currently practices Socialism and is called Socialist.

The difficulty for Mr. Kuron is knowing how far KOR can press the badly weakened Communist Party without bringing about what all sides refer to as a "national disaster."

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THE IRAQ/IRAN CONFLICT

FT correspondents assess the impact of the escalating conflict between two of the Gulf's oil giants

Attacks push Khomeini's Islamic Republic to the brink

HE ALL-OUT attacks on Iranian military installations reported to have begun on the orders of Iraqi President Saddam Hussein represent the gravest threat so far to the survival of Ayatollah Khomeini's 19-month-old Islamic republic.

Awareness of the danger has ready led to a postponement, possibly indefinitely, of the parliamentary debate on the fate of the 52 American hostages. It has also led President Abol Hassan Bani-Sadr to again publicly confirm himself Commander-in-Chief of the country's armed forces, casting his own authority at the expense of the hardline clerics who have called the tune for the last few months.

In turn there will be strong pressures within Iran to reverse the recent trend and strengthen the hand of the much-emphasized armed forces, suffering from repeated purges of politically-suspect officers and

changes in the command structure. These pressures will come from the President and his small circle of followers and from the minority within the clergy aware of the wider implications of Iran's continuing internal revolution.

Faced with what looks like

Old fears revived in the Gulf, and Baghdad's strongman plays a risky game—Page 18

the onset of full-scale war, this faction is certain to benefit from the wave of popular nationalism which will sweep the country. Strengthening the traditional patriotism—which has been given little play since the revolution—is the ruling establishment's concept of Iran as the bastion of Shi'ite Islam in a Muslim world dominated by the rival Sunnis.

The rivalry between the two countries for Gulf leadership is long standing. Apart from the fact that Iraq has profited from Iran's disorders to establish a clear lead, it is widely believed in Tehran that Baghdad is acting as an "agent of imperialism" in trying to bring down the

clergy-led regime.

The paranoia of an insecure and jittery regime aside, Tehran has good grounds for suspecting Baghdad of these ambitions. Several hundred former army officers of the Shah led by a one-time commander of the Imperial ground



Ayatollah Khomeini (left) and President Abol Hassan Bani-Sadr, who now has a chance to assert himself over the Mullahs.

forces are known to be based in Iraq, preparing for military operations.

Weapons, financial help and secure rear bases have been given to dissident Kurdish groups in Iran, frequent sabotage operations on oil pipelines in the south-western Khuzestan

province have been launched with Iraqi help; two clandestine radio stations pour out hostile propaganda in Persian each evening against the Ayatollahs.

In response so far Tehran has done little beyond defending its border posts against military depredations and incursions. The help it has provided to dissident Iraqi Shias has, in practical terms, probably been minimal, largely because of the inability of the leadership to organise and implement such operations.

Nevertheless, when it comes to giving a conventional military war of limited duration

President Bani-Sadr and the

key Ayatollahs are in a better position than they could have dared to hope for—and for that they have their predecessor, the late Shah, to thank.

Iran is virtually self-sufficient

in most types of ammunition

for the ground forces and has

a large stockpile for its air

defence systems, supplied by

the British. The lack of spare parts for its Chieftain tanks will have incapacitated a large proportion of their number but there should still be at least 700 main-line battle tanks in fighting order.

The ability of the Iranian joint chiefs of staff to strengthen their capability is a different matter. Restoring the air force, on paper superior to that of Iraq, to full strength would require an airlift of many weeks duration from the U.S. and the return of U.S. technicians. Khomeini can expect no help in that direction.

The call up of reservists over

the weekend will have given a

big psychological boost to the

war footing Iran is putting itself

on but if hardly necessary in

military terms. Even in its run-

ning state, Iran still has an

army of over 300,000 men.

Sadam Hussein's private hope

must be that by striking a blow

of this order deep into the heart

IRAQ	IRAN
2,100	1,100
1,800	800
350	447
4,000	30,000

of Iran he will instantly expose the pretensions of the quarrelling mullahs—the Islamic clergy, meant to be actually running the country, and that their system will collapse in favour of a military or neo-military régime more moderate in its domestic and international policies.

Baghdad envoy in Moscow talks

By David Sette Hilleman

MR. TARIQ AZIZ, special envoy from Iraq, yesterday began talks with Soviet leaders in Moscow amid signs that the Soviet Union did not want to take sides in the intensifying conflict between Iran and Iraq. The Soviet news agency Tass reported that Mr. Aziz held talks with Mr. Boris Ponomaryov, a Communist Party secretary, and Mr. Nikolai Maltsev, the First Deputy Foreign Minister.

Mr. Aziz and the Soviet leaders were said to have discussed "topical questions" relating to the Middle East.

Iraq has been a Soviet ally since 1972 when the Soviet Union and Iraq signed a five-year Friendship Treaty, and the Soviet Union has made a major effort to improve relations with Iran since the fall of the Shah and the worsening of U.S.-Iranian relations last year.

Reflecting an apparent Soviet reluctance to alienate either Iran or Iraq, the Soviet Communist Party newspaper Pravda yesterday avoided criticism of either country but accused the U.S. of setting the two Middle East neighbours against each other.

The newspaper said that the U.S. was employing the policy of "divide and rule" as part of a worldwide drive to establish its supremacy.

"Washington is seeking to draw out the Middle East conflict to split Iran from the Arabs, to set Iran against Iraq and Afghanistan," the newspaper said.

The visit of Mr. Aziz, which appeared to have been arranged quickly and was not reported in the Soviet Press, was believed to be intended to give the Iraqis a chance to explain their position and argue against any Soviet aid to Iran.

Although the Soviets are believed to prefer a negotiated settlement to the dispute and may be prepared to work for one, Soviet Press comment months ago, when the crisis first got underway, suggested that, if the situation became a great deal worse, the Soviet Union might be prepared to tilt toward Iran.

The General Council of British Shipping said yesterday that pending more information, UK ships are being advised not to pass through the Shatt al-Arab.

Crude spot prices hold steady

By MARTIN DICKSON, ENERGY CORRESPONDENT

A P. and O. cargo ship, the 17,350-ton *Strathfeile*, was the first reported British casualty in the hostilities. It received seven bullet holes in its crew accommodation while sailing out of the Iraqi port of Basrah, but no one was hurt and the ship proceeded on its regular service between the Gulf and Japan.

Another P. and O. ship, the *Gambhra*, was to have entered the Iranian port of Bandar Khomeini but has been instructed to wait outside.

Generally, however, shipping in

the Gulf has not been affected to any great extent by the outbreak of hostilities.

Shatt al-Arab is situated at

the top of the Gulf and the

only ports that are immediately affected are Basrah in Iraq, and the oil ports of Abadan and Khorramshahr in Iran. General cargo traffic to these ports is limited and the bulk of the shipping movements is made up of oil tankers.

BP reported yesterday that

its nearest tanker is 240 miles

south and none of its ships

are due in Iraq for some time.

As yet, the main Iranian oil port of Kharg Island does not seem to have been affected.

The General Council of

British Shipping said yesterday

that pending more information,

UK ships are being advised not

to pass through the Shatt al-Arab.

U.S. urges restraint

By DAVID BUCHAN in WASHINGTON

The U.S. yesterday urged Iran and Iraq to settle their differences peacefully. The State Department insisted the U.S. had no intention of getting involved, and rebutted Iranian charges that the U.S. had instigated Iraqi attacks.

The State Department stressed its belief that the Iran-Iraq dispute and the crisis over the captive American hostages were quite separate issues, but U.S. officials are privately concerned that the fighting may well distract the Tehran leadership's attention from the hostage issue.

Mr. Edmund Muskie, the Sec-

retary of State, yesterday used his address to the UN General Assembly to re-assert that the U.S. was ready, with the help of the UN forum, to try to redress some of Iran's grievances. But the State Department in Washington pointedly refused to comment on the latest statement from the Speaker of Iran's parliament that the hostages would not be returned until the late Shah's alleged assets had been returned from the U.S.

The U.S. said it had not yet issued any warnings to U.S. shipping in the upper Gulf, or put its naval forces in the area on any higher alert.

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War could bring world-wide oil shortage

BY RICHARD JOHNS

PERHAPS THE only factor for consolation at a time when the world's oil supplies are threatened by the escalating Iranian-Iraqi conflict is that stocks are at a record level, estimated last month at 5bn barrels or enough to satisfy demand for 100 days or more. Thus, there was no panic buying yesterday on the stock market.

Yet if only part of the output of the two combatant states is cut off for any considerable time it could have a grave effect on both availability and price. For both countries, oil is the economic life-blood, providing more than two-thirds of revenue

and nearly all foreign exchange. In the first half of this year Iraq is reckoned to have produced at the rate of 3.5m barrels a day b/d) and Iran at 1.5m b/d, compared with output from the Gulf of some 18.5m b/d and a total by members of the Organisation of Petroleum Exporting Countries of 27m b/d or so.

The current worldwide surplus is generally estimated at up to 2.5m b/d. But with a number of OPEC members planning cuts in output anyway, the market could rapidly tighten if as little as 1.5m b/d in output was lost for any reason.

Of the two countries, Iran is much more vulnerable. The bulk of its exports of both crude oil and refined products is from the terminals of Bandar Mahshahr and Kharg Island at the head of the Gulf, both of which could be hit by Iraqi long-term artillery, quite apart from aircraft.

Iran's production capacity was rated recently at over 6m barrels a day. However, because of lack of maintenance and the failure to keep up the pressure of the fields since the revolution, it may now be no more than 3.3m b/d. Internal consumption is 700-800,000 b/d, and production of crude and products from the export-orientated Abadan refinery, which has a capacity of 630,000 b/d, has been of a similar volume.

Revenue has hardly been sufficient to provide the foreign exchange for Iran's basic import requirements. With \$5bn in assets frozen in U.S. banks, its useable reserves may only be enough to keep the country afloat for five or six months.

Iraq is in a far more favourable position. About one-third of its capacity lies in the north of the country in the region of Kirkuk and Mosul. They are connected to the Mediterranean Sea by pipeline, with terminals in Sidon in Syria and Tripoli in the Lebanon. Their capacity was increased a few years ago to 1.2m-1.4m b/d.

The Iraqis also have the more recently constructed pipeline to Iskenderun in the southeast of Turkey, which could carry as much as 800,000 b/d.

Output from the south can also be pumped northwards under a "switch" system built up deliberately for strategic reasons, among them the possibility of a closure of the Gulf

Kirkuk and Mosul. They are route.

Lloyds plan 300% rise in premiums

BY JOHN MOORE

LONDON underwriters in insurance companies and at Lloyd's are planning to increase insurance premiums on cargoes in ships travelling to Iran by 300 per cent following the escalation of the border conflict between Iran and Iraq.

In London yesterday, the war risk rating committee of the Institute of London Underwriters, representing all sections of the UK marine insurance market, recommended to over 100 insurance concerns and Lloyd's, that the rates should be increased with effect from today.

Underwriters were already adjusting their rates to take into account the additional risk to hulls of

Earlier this year, Lloyd's and

insurance companies quadrupled the war rate to 10% for each £100 of the ship's value for ships travelling to Iran, and charged an extra premium on ships travelling to Iraq, of 0.075 per cent.

U.S. ships were rated on individual application when seeking insurance on voyages to Iran because of the U.S. row with Iran over the hostages.

Now underwriters are changing a considerable premium over those revised rates.

The Institute had said that rates should be increased from 0.125 per cent of cargo values to 0.5 per cent on those cargoes

going to Iran. The same rate is to apply to those cargoes on ships travelling to Iraq.

At Lloyd's yesterday, underwriters were already adjusting their rates to take into account the additional risk to hulls of

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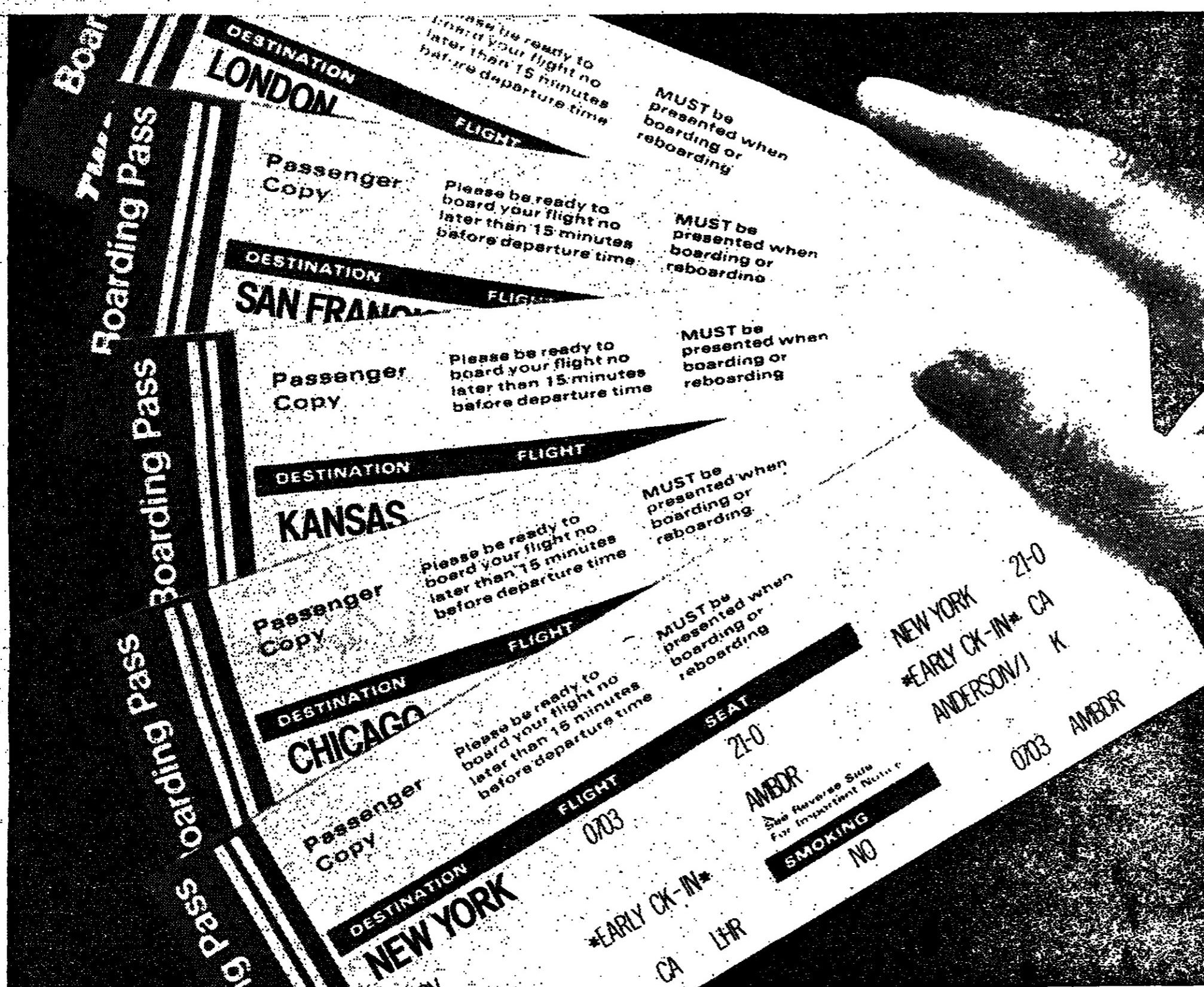
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TWA

AMERICAN NEWS

Jurek Martin in Washington reports on the campaign debate which Mr. Carter decided to miss

TV combatants avoid the pitfalls

OPINIONS were divided yesterday over who profited most from the initial television debate featuring presidential candidates in Baltimore on Sunday night—Ronald Reagan, the Republican, and John Anderson, the Independent, who took part, and President Jimmy Carter, the Democrat, who sat it out.

Critically for the two participants, neither put a major foot wrong, as President Gerald Ford had four years ago when he tried to deny the existence of Soviet domination of Eastern Europe in his confrontation with Mr. Carter. Both generally stuck safely to their well-practised campaign scripts.

Both showed reasonable command of factual material, an important matter for Mr. Reagan, prone, as he is, to slips of the tongue when dealing with complex subjects. Both, while

The President's advisers have

taking occasional digs at the absent Mr. Carter, appeared relaxed and in good humour. Mr. Anderson was sharper in his attack on Reagan than vice versa but never to the point of heat. Mr. Reagan's well-known amiability and skill in delivering one-line homilies was well to the fore.

Somewhat predictably, Washington commentators tended to view Mr. Carter as the loser for shunning the event. The President had insisted that no triangular debate should take place before he had had the opportunity to take on Mr. Reagan face-to-face. Since he considers the Anderson candidacy a threat to his own re-election, he is intent on doing nothing that would legitimise Mr. Anderson's pretensions to the White House.

The strong anti-Washington strain is, of course, a staple of Reagan conservatism. He repeated that the energy problem could essentially be solved

Certainly, on such thorny if Government shackles were

questions as abortion, he was uncompromising. "I've noticed that everyone who is for abortion has already been born," he remarked, a telling line though one which may not stand up to textual analysis.

On the economy, he again showed his knack for reducing the complex to everyday terms. Cutting Government spending was like cutting a child's pocket money. On the plight of the cities, he asked:

"Wouldn't it make a lot more sense if the Government let them keep their money in the first place?" On the church's role in politics: "No one in the country should be denied the right to express themselves."

The strong anti-Washington strain is, of course, a staple of Reagan conservatism. He repeated that the energy problem could essentially be solved

by giving people reason to vote for him. He demonstrated once again that he is good in argument and not afraid to take controversial positions. He repeated, for example, his belief in a 50 cents a gallon tax on petrol and his opposition to a politically popular tax cut while inflation still raged.

Nor would be buy the Reagan hypothesis that Government was the root of all evil. He sought at times to widen the otherwise narrow political horizons of the debate by stressing the problems of the future—nationalism, proper use of natural resources and so on—



John Anderson, the independent candidate, and Ronald Reagan (Republican), in confident mood at the start of their debate.

taken off industry, so could the whereas Mr. Reagan once again evoked America's past greatness and divine right to supremacy.

Earlier, there had also been some local opposition in Houston, the large Gulf of Mexico port. This was resolved over the weekend.

Approval was foreshadowed when leaders of the International Longshoremen's Association agreed on the broad outline of a new contract with employers last May. Since then the details have been worked out at local level.

On most previous occasions, the ILA has struck to reinforce

Dockers accept 34.6% increase over 3 years

BY DAVID LASCELLES IN NEW YORK

SMOOTH NEGOTIATION of a new three-year pay contract for a combination of union porters and employers' expenses to settle without labour disruption smoothed the path. The union was particularly concerned that a strike would lead to the diversion of work to Canadian ports at a time when Atlantic freight rates are cutting into profits.

The 34.6 per cent increase is above the 9 per cent + year wage guideline set by the Carter Administration. But it is in line with other recent industrial settlements where union leaders have argued that part of the increase is outside the guideline.

The ILA spokesman said he could not comment on how the settlement squared with the guidelines.

Under the terms, dockers on the Atlantic and Gulf coasts will have their hourly rates raised from \$10.40 to \$14 an hour over three years. But there will also be a small increase in their pension contributions.

One item in the contract is a holiday on the birthday of Mr. Teddy Gleason, the ILA's 79-year-old president.

Mexico's food imports likely to cost \$2bn

By William Chislett in Mexico City

THE DEPTH of Mexico's agricultural crisis was underlined at the weekend with an announcement by the Trade Ministry that this year's food imports will amount to 12.1m tonnes compared with 3.7m tonnes last year. The figure is 73 per cent higher than originally forecast.

Mr. Hector Hernandez, Under-Secretary for Trade, said the cost of the imports would be about \$2bn (2834m) — 16.5 per cent of the estimated \$12bn revenue from oil and natural gas exports.

The crisis has coincided with Mexico's oil boom. The rural sector has long been the problem child of the Mexican economy, but this year the position is worse than ever.

Agricultural production, hit by drought, and decades of neglect, cannot keep up with the 2m-a-year rise in population.

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Federico Delgado, Treasurer Vice-President, Industrias Penoles.
Photographed at Industrias Penoles, Monterrey, Mexico.

Today, Mexico's Industrias Penoles is a mining, metallurgical and chemical leader. And in a country that produces more silver than any other, Penoles produces more silver than any other company in Mexico.

A privately owned Mexican enterprise engaged in the production of high purity materials derived from mineral resources, Penoles has seen its sales increase ten-fold in the past decade. Thanks to the foresight of company management, the financial guidance of Treasurer Vice-President Federico Delgado, and the flexibility of Mr. Delgado's Chemical banker, Lawrence Miller.

In 1969, to maximize its growth

potential in the industry and to minimize its dependence on price-sensitive lead and zinc, Penoles embarked on a major program of exploration and expansion — for which substantial amounts of money were required.

That's when Penoles got together with Chemical. Of course, Penoles was doing business with other major U.S. banks. But at a time when the company's expansion ran up against falling mineral prices, Chemical Bank was both receptive and responsive. With Larry Miller's knowledge of the company, and his confidence in management's ability to handle their ambitious program, he arranged to lend Penoles over 50 million dollars.

With the funds provided, Penoles substantially increased capability. And with Mr. Miller's demonstrated understanding and responsiveness to the company's changing needs, Mr. Delgado has since come to him for help with investments and cash management services.

Based on the professionalism exhibited on both sides, the relationship between Mr. Delgado and Mr. Miller has opened into one of mutual respect. That's what usually happens when corporate officers get together with Chemical bankers. And what results is long-term benefits for both the company and the bank.

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Japan car makers deny 'gentleman's pact in U.S.

By Richard C. Hanson in Tokyo
IN SPITE of a general agreement that Japanese car exports to the U.S. will level off, or fall slightly, toward the end of this year, the Ministry of International Trade and Industry (MITI) and the two largest motor companies vigorously deny it represents anything like a U.K.-style gentleman's agreement on voluntary export restraints. The issue arose last week after Mr. Rokusuke Tanaka, the MITI Minister, said in the U.S. that exports by the Japanese car makers in the last quarter this year will fall below those in the corresponding quarter of 1979.

This prediction, MITI says, was made after a poll of forecasts made by Toyota, Nissan and Honda. Reports, however, soon emerged that the U.S. Fair Trade Commission would look into the situation to determine whether the Japanese makers were "conspiring" to hold down shipments. This would violate U.S. anti-trust regulations. MITI and the makers say the forecasts are based solely on conditions in the U.S. market. The reason exports may drop is related to price increases and stiffer U.S. competition.

Mr. Tanaka met the major Japanese exporters to the U.S. (Toyota, Nissan and Honda, which account for more than 80 per cent of cars shipped from Japan) to emphasise that such exports should be "prudent." This is also the catchphrase used when the UK and Japanese motor industries meet twice yearly to ensure that Japan does not take too large a market share in Britain.

The UK understanding represents, in effect, just the type of arrangement Japanese companies are careful to avoid, even the appearance of in the U.S.

The Japanese companies manage to jockey among themselves for bigger individual slices of the UK market, while regularly assuring the British motor industry association, SMMI, that they will export "prudently."

"I'm not even sure there is a gentleman's agreement with the U.K.," comments one Japanese industry official. MITI is urging that each motor company decide on its own policies of exporting to the U.S. The hope is that some signs of goodwill on the part of the companies will help avoid any further build-up of protectionist sentiment in the U.S. Congress.

Japanese for traders

INCREASING trade with Japan has prompted a Scottish University to introduce evening classes in spoken Japanese.

The course, being run at Sterling University, is designed for those with no knowledge of the language and there is no reading or writing involved.

FOREIGN COMPANIES seeking to sell equipment to the urban mass transit authorities in the U.S. have been handicapped since 1978. If Senator John Heinz of Pennsylvania has his way then the foreign companies would find the barriers to their sales almost insurmountable.

The Surface Transportation Act of 1978 provided that federal funds used to buy equipment could only be used if 51 per cent of it was U.S.-made. The equipment would, in any case, have to be assembled in the U.S. If the conditions were

not met then the foreign price had to be at least 10 per cent less than the nearest competing U.S. bid to be accepted.

Senator Heinz wants the Buy America provision raised to 70 per cent. An amendment to this effect, attached to an enabling Bill providing \$24.8bn federal funds to the Urban Mass Transport Administration, is now before the House of Representatives, having passed the Senate.

Meanwhile General Electric and Budd, the railway car manufacturer, are thought to be press-

ing for the 10 per cent contract price differential to be stiffened to 20 per cent.

The role of Budd in the whole matter is crucial. Budd is in Senator Heinz's state, and it is widely assumed that the group's urging prompted him to sponsor the amendment. It is the only remaining railway car manufacturer left in the U.S., now that Rohr, Pullman Standard and a Boeing unit have fallen by the wayside.

But Budd, although gearing up its production, has been missing local contracts. Railway

car contracts for the Washington mass transit system were won by Breda of Italy. Kawasaki of Japan won them for systems in Cleveland and in Philadelphia, Budd's home town.

The only UK railway car manufacturer for mass transit systems is Metro-Cammell, the Laird group subsidiary. The company has ambitions to enter the U.S. market but would be unable to do so without very heavy use of U.S. sub-contractors.

Other UK companies like GEC's

Indeed, some European manufacturers doubt whether the planned expansion of mass transit systems in the U.S. can be achieved without considerable foreign participation.

Transit authorities in the U.S. have already expressed their opposition to the Heinz amendment in conversations with European manufacturers.

The UK Government and the EEC are believed to have sought to impress the inflationary argument on the Carter Administration in protest notes. Both, in any case, consider the matter to be grossly protectionist.

which comes from having a number of suppliers.

And the Carter Administration is thought to be against the Heinz amendment, considering the building of barriers around the local industry to be inflationary.

The UK Government and the EEC are believed to have sought to impress the inflationary argument on the Carter Administration in protest notes. Both, in any case, consider the matter to be grossly protectionist.

These authorities are anxious to preserve the bidding competition which arises from active foreign participation. They want the flexibility of choice

'Buy American' obstacles mount for overseas bidders

BY ANDREW TAYLOR

INFERIOR MARKETING techniques, too little attention to local design needs, failure to meet delivery requirements and unfair overseas competition are factors often cited as reasons for the unsatisfactory export performance of some of Britain's more prominent industries.

Last week's report from the National Economic Development Office (NEDO) on the UK building materials industry sought to unravel some of the problems and weaknesses of British management in export markets.

Compiled by the Building and Civil Engineering economic development committee, the report painted a familiar picture of an industry that has perhaps

been too complacent but which has also suffered from cut-price competition and restrictive trade barriers operated by both developed and developing nations.

Last year UK imports of building materials rose by just over 23 per cent to £1.76bn while exports rose by only 3.2 per cent to £1.18bn—a trading deficit of £581m.

The widening of the trade gap last year—after several years during which building materials exports rose faster than imports—reflects more than just the impact of a strong pound.

The report estimates that just under half of last year's import bill—£875m worth—was accounted for by raw materials

not generally available in this country. A further £200m was products that are periodically in short supply.

Of the remainder, about £200m was thought to have been in goods generally considered to be of superior quality to those produced domestically. A further £50m was accounted for by products that were competitive on price but inferior in quality to British goods.

What the report cannot show, however, is the full extent of "hidden subsidies" believed to have been made available to overseas rivals which enable them to undercut prices in export markets.

Particularly annoying to UK manufacturers is that, not only do they have to comply with ever-varying product legislation, they must also bear some of the blame for a less than satisfactory export performance.

Statutory regulations by many countries as trade barriers, particularly as neither British Standards nor Agreement Certificates are generally used in this manner in the UK. The situation is especially serious for potential UK exporters to West Germany and France.

The use of product standards regulations as effective trade barriers is of particular concern to manufacturers seeking to sell to EEC countries, which account for about a third of British exports of building materials.

It would be tempting to lay all the industry's ills at the feet of unfair overseas competition, with the dumping of cut-price goods from low-wage economies another frequent complaint of British building material manufacturers.

Delivery times are another source of concern. The report says that, while small and medium sized companies have "performed incredible feats" to meet delivery requirements, foreign competitors often do even better as they appear to be more willing to hold stocks.

It cites the failure to market goods adequately or to take proper account of local needs as two areas where producers could make improvements.

It says: "Material producers' designers rarely travel abroad and so it is hardly surprising if a product designed for the UK market is found to be unable to withstand the rigours of the climate, the unskilled construction worker or even the journey."

The principal advantage to manufacturers of technically advanced designs is that these can place products above price considerations.

Clearly the domestic industry has grounds for grievances over its treatment in some overseas countries but equally some of its weaknesses are of its own making.

Complacency and competition cited as culprits in poor export performance

BY ANDREW TAYLOR

TOKYO—The U.S. and Japan reached a new air traffic agreement that resolves one dispute but leaves several major points of contention for future talks.

The big winner in the pact was Continental Air Micronesia, a venture controlled by Continental Airlines that serves Guam, and the Marianas and other islands in the western Pacific Ocean.

Continental has been maneuvering for two years to increase its flights between Saipan and Japan. The new pact provides for a sharp increase in Continental's Saipan-Japan flights. Moreover, an eventual result of the pact could be Continental service between Nagoya, Japan and Saipan—currently the airline is allowed in Japan to serve only Tokyo's Narita airport.

The agreement is also expected to extinguish a U.S. threat to retaliate against Japan Air Lines, which is partly owned by the Japanese Government, if Japan continued to deny Continental's request to increase its flights.

On the broader aviation questions dividing the U.S. and Japan, however, the negotiators agreed only to schedule further discussions within the next few months.

AP-DJ

Thomson-CSF wins £75m Iraq broadcasting deal

BY TERRY DODSWORTH IN PARIS

THOMSON-CSF, THE French electrical and electronics group, has overcome strong international competition to win a FFr 750m (£75m) order to set up a radio broadcasting system in Iraq.

The deal underlines the strong and growing links between French companies and Iraq, now one of France's largest oil suppliers. Thomson itself has benefited greatly from these contacts, notably with a similar order for television network equipment, and, it is believed, with a contract to establish an electronics and communications manufacturing industry in Iraq.

Although this last deal has never been confirmed by the French company, it has been

French and Japanese tool makers in joint venture

BY OUR PARIS STAFF

TWO OF the largest machine tool companies in France and Japan, H. Ernst-Sonoma (HES) and Toyoda Machine Works are linking up to form a joint company for the development and manufacturing of common products.

The deal marks a clear attempt by both companies to increase their impact on international markets while reducing costs and strengthening their product ranges. As an initial aim, the joint company, HES-Toyoda, is aiming to unveil an advanced electronic milling machine at the Hanover Fair next year.

For the Japanese group, the agreement has also been conceived as a way of giving it a foothold in Europe, where the company clearly fears protectionist action because of the depression in the industry.

Mr. Shigemitsu Asai, chairman of Toyoda, said in Paris that his company prefers this arrangement to trying to make a solitary attack on the European market.

The agreement for the French company forms a significant part of its plans to pull

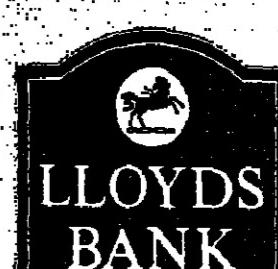
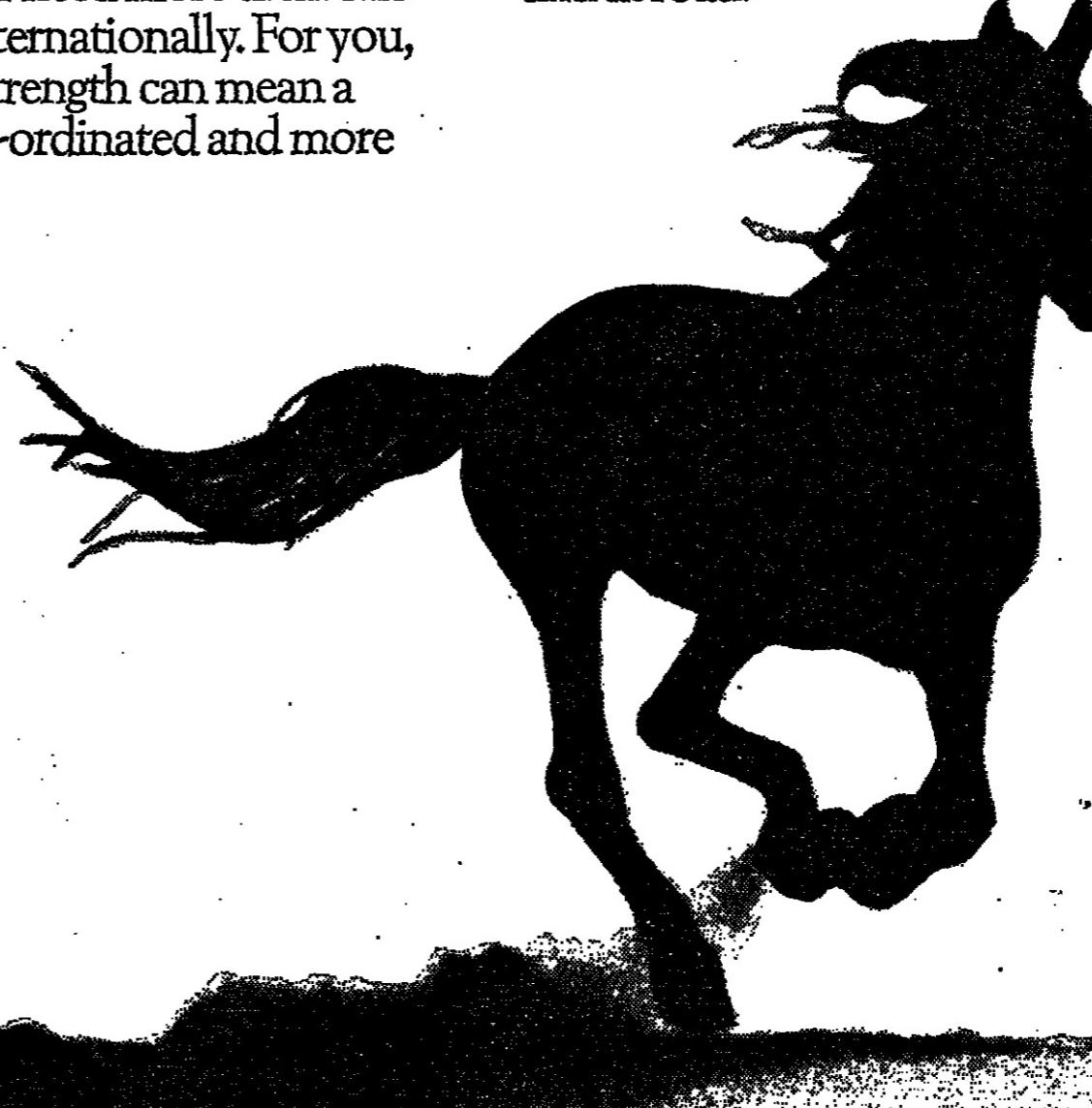
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UK NEWS

Sirs attacks steel imports

BY ALAN PIKE

THE PUBLIC and private sectors of the British steel industry are doomed unless action is taken to reduce the level of imports from Europe. The largest British steel union has told Viscount Etienne Davignon, the EEC Industry Commissioner.

Feelings that Britain was becoming the "European dustbin" for excess production elsewhere in the EEC were creating a groundswell for British withdrawal from the Community even among pro-marketeteers. Mr. Bill Sirs, general secretary of the Iron and Steel Trades Confederation, says in a letter to Viscount Davignon.

The ISTC's intervention comes as Viscount Davignon is making urgent efforts to maintain measures to restrain European steel output at a time of severely declining demand. He has failed to persuade Eurofer — the organisation encompassing the majority of EEC steelmakers — to accept further output cuts for the final quarter of the year. The EEC Commission now plan a direct approach to

major companies.

Mr. Sirs says in his letter to Viscount Davignon that he is not surprised the Commission is having difficulty securing German and Italian agreement to further voluntary production cuts.

In the past two years the

Germans and Italians had repeatedly been among countries which overproduced, leaving the United Kingdom to face up to the excesses of imports from Europe, quite often at a much lower price than that operating in this country."

The EQUAL Opportunities Commission is to conduct a formal investigation into the effects which the different retirement ages of men and women had on recent redundancy payments at the British Steel Corporation's Shotton works.

Some Shotton employees alleged that they had received discriminatory redundancy payments — retirement ages are not included in the Sex Discrimination or Equal Pay Act.

The inquiry's terms of reference will be to investigate the effect of different retirement ages for men and

This had resulted in both public and private sectors of the British industry having to face competition which was quite unfair due to the subsidies on normal commercial activities being received by the rest of Europe."

As a result, excellent British plant was being closed down, while in Italy, Germany and elsewhere capacity was being increased purely and simply for the export of steel.

Mr. Sirs' concern about European over-production, with Britain at the receiving end because of the strength of the pound, is widely supported on both sides of the steel industry.

Today, Mr. Ian MacGregor, chairman of the British Steel Corporation, will meet Sir Keith Joseph, Industry Secretary, and review the current state of the corporations' financial crisis.

BSC is heading for another year of certain and severe loss. In June Sir Keith accepted that additional financial support for BSC would be needed in the current financial year, and early action on this is likely.

Equality investigation

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Lonrho fails to subpoena Bingham

By Raymond Hughes, Law Courts Correspondent

AN ATTEMPT by Lonrho to compel a High Court judge to give evidence in its dispute with Shell and BP over alleged Rhodesian sanctions-busting was stopped by another judge yesterday.

Lonrho had served a subpoena on Mr. Justice Bingham who, as Mr. Tom Bingham QC, conducted the Government inquiry into sanctions-busting allegations.

The company wanted the judge to be a witness at the private arbitration of the dispute, which has been going on intermittently since June 23 at the Piccadilly Hotel in London.

But at a private hearing in the High Court yesterday, Mr. Justice Griffiths granted an application by the Treasury Solicitor for an order quashing the subpoena.

Lonrho could appeal against the ruling but yesterday its lawyers refused to comment on the matter.

At the arbitration, Lonrho — which is claiming about £100m damages against Shell, BP, 28 other companies and three individuals — is attempting to prove that Shell and BP conspired with the rebel Rhodesian regime to keep oil flowing into the country throughout the period of UDI.

Shell and BP strongly deny the allegation.

In earlier court proceedings, Lonrho failed in its attempt to have Shell and BP's evidence and submissions to the Bingham inquiry put in as evidence in the arbitration.

BP plans £5m test plant for new fuel

BY MARTIN DICKSON, ENERGY CORRESPONDENT

BRITISH Petroleum is to set up a £5m test plant in Essex to produce large quantities of a new coal-oil mixture which could eventually be a substitute for heavy fuel oil in conventional oil-fired boilers.

BP intends to produce up to 100,000 tonnes a year of the fuel at a converted cement works in West Thurrock. The mixture will then be supplied to industry and power stations in several countries for large-scale trials spread over four years.

The move is a significant new development in coal-oil mixtures — a combination of heavy fuel oil and coal ground to a fine consistency. These are designed for use when oil-fired boilers cannot be converted to coal on grounds of cost, design or site logistics.

With a cost advantage over conventional fuel oil, the mixtures are expected to prove particularly attractive to industrialists planning a long-term switch to coal firing but having oil-burning plant with a substantial life remaining.

Shell is also heavily involved in the development of the mixtures — it has registered the name Colloid for its fuels — and parallel developments have been taking place in Japan and the U.S.

Considerable destocking by retailers and a comparison with especially high clearance figures for last year distort the position and exaggerate the decline.

But retailers and manufacturers are gloomy at the more reliable moving annual total of clearances, down 16.2 per cent on 1979, with no sign of improvement later this year.

The total spirits clearance figures between April and June were 8.42m litres of alcohol compared with 24.85m litres for the same period last year.

Surprisingly, vodka showed the largest drop in the amount cleared, at more than 70 per cent. Vodka has been the boom drink and all indications had suggested it was holding up well.

Spirits sales in the shops between April and June this year are reported to have fallen by between 20 per cent and 25 per cent. The Government's Business Monitor for the second quarter showed a 20 per cent fall in volume sales. Off licence spending rose by 5 per cent on a July 1979 base, but prices increased by 25 per cent for drink.

Five stores are to be opened before Christmas in addition to the 11 already opened this year. But a number of Tesco's small stores may have to be closed as part of the rationalisation programme.

Scottish competitor plea

FINANCIAL TIMES REPORTER

THE PRIME MINISTER has been asked by a London company producing computer-control servo-motors to help stop the Scottish Development Agency investing in a Scottish competitor.

Mr. Alan Wood, managing director of Small Electric Motors of Sydenham, has written to Mrs. Margaret Thatcher protesting that investment in the Scottish project did not

make strategic sense from the national point of view and should not be publicly funded. Permanent magnet servomotors are used in robotics and other automated processes. Mr. Wood says in his letter that the possibility of the Scottish Development Agency investing soon after the failure of a similar venture involving the National Enterprise Board and SR Servotron.

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Around 84 per cent of U.S.-owned Welsh companies regard labour relations as easier or the same as in the U.S., compared with 68 per cent

U.S. concerns 'like Wales'

BY ROBIN REEVES, WELSH CORRESPONDENT

WALES IS given high marks as a European operating base for U.S. manufacturing companies in a survey published yesterday by management consultants, Maynard and Barry, covering around 100 U.S. companies operating in Wales. The survey says there has been a marked improvement in labour relations over the past two years.

Some 80 per cent of companies said they had suffered no significant disruption of production due to internal disputes in the last five years, compared with a figure of 63 per cent in a similar survey two years ago.

Around 84 per cent of U.S.-owned Welsh companies regard labour relations as easier or the same as in the U.S., compared with 68 per cent

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Continued support for musicals

BY ANTONY THORNCROFT

THE ARTS COUNCIL will continue to support financially musicals like *Fair Lady and Oklahoma!* Sir Roy Shaw, secretary general of the Arts Council, said yesterday, introducing the Council's 1979-80 annual report.

It had invested £40,000 in *Fair Lady* and the money had already been paid back. *Oklahoma!*, which has just

opened in London, is receiving £80,000.

production costs of expensive musicals because it wants to keep alive the major theatres in the provinces.

Sir Roy said yesterday that 45 per cent of the income of Arts Council "performing clients" came from the box office, with the Council contributing 39 per cent, local authorities 9 per cent, donations and sponsorship 3 per cent and other grants 1 per cent. This puts in proportion the current contribution of industrial sponsorship of the arts in the UK.

Sir Roy reviewed a year in which the Arts Council has largely escaped criticism of its 1,200 organisations and individual artists it supports. The major change in the last decade was the shift in support from London to the provinces. Around three-quarters of the Council's expenditure, which in 1978-80 was £61m, went to the provinces compared with less than half in 1970.

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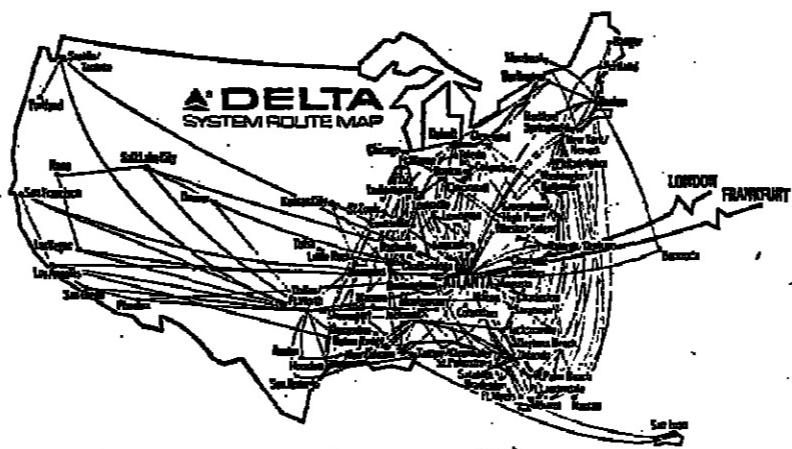
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Thatcher worried over tax warning

BY RICHARD EVANS, LOBBY EDITOR

By Peter Goodman

THE PRIME MINISTER has autumn mixed feelings about the warning by Mr. John Nott, the Secretary for Trade, that the Government might have to raise taxes next year. Mrs. Thatcher fears this would create divisions in the Cabinet and the Conservative Party.

As Mr. Nott confirmed, the Government is determined to hold down public sector pay this winter, to single figures if possible. Economic ministers have the full support of Mrs. Thatcher.

While increases in taxes will remain a technical alternative to controlling public sector costs, the Prime Minister appreciates the rows that would break out in the Government if either direct or indirect taxes were increased.

Higher direct taxes would be widely regarded as a complete reversal of the incentive formula on which the Government came to power.

In addition, a powerful group of senior Ministers would oppose higher indirect taxes at a time of economic depression.

There was no consultation between Mr. Nott and Mrs. Thatcher before the Minister made his remarks, and the assumption is he intended simply to highlight the dilemma the Government would face if it failed to meet its PSBR targets.

Shore joins Labour leadership contest

By Peter Goodman

MRI. PETER SHORE, the shadow Foreign Secretary, yesterday put down his marker as a contender to succeed Mr. James Callaghan as party leader.

He did so with a lengthy exposition of his views which showed that in certain key areas of economic thinking, he would favour policies distinctly to the Left of those adopted by the last Labour Government.

For the most part, his views would seem more likely to appeal to the Centre-Left of the party than the far left, and his lecture would appear to consolidate his reputation as the likely candidate for the "soft Left" when Mr. Callaghan goes.

Delivering the H. G. Wells Memorial Lecture, Mr. Shore unequivocally rejected monetarism and called for the abandonment of monetary targets, together with an expansion of the economy.

Inflation

He also argued for a much lower rate of sterling and the imposition of import controls.

He referred to formal incomes policy to deal with inflation, proposing instead a policy of "co-operation" between Labour, Government and the unions which would agree the parameters within which collective bargaining would operate.

Mr. Shore also argued that a complete reappraisal of the priorities of a Socialist society was necessary.

He recalled that last month his Ministry announced that its cash limits were to be increased by £203m. This provided for continuation of full compensation in armed forces pay and for a further real increase in the defence programme this year.

The Government argues that this would at least end the present sterility and offer the chance of a gradual devolution of powers.

Pym still firm on deterrent

BY OUR BUDAPEST CORRESPONDENT

THE REV. IAN PAISLEY, leader of the Democratic Unionist Party, said last night that if the Government brought in legislation to establish an Assembly in Ulster and then the parties could lead to elections to some form of Assembly early next year. However, he said before yesterday's meeting that any Assembly would have to go beyond a purely advisory role.

An Assembly with an advisory role, elected by proportional representation, is seen by the Government as the only fully-fledged in the very likely event of the deeply divided Northern Ireland parties failing to reach any significant agreement.

The Government argues that this would at least end the present sterility and offer the chance of a gradual devolution of powers.

He told Mr. Atkins that within the second option proposed in the Government's July White Paper — a majority rule theme with minority safeguards — there

efficient methods, in particular by reducing administrative overheads.

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Council pay deal change suggested

BY ROBIN PAGLEY

COUNCILS SHOULD be allowed to reach locally-negotiated wage agreements with their employees where market conditions allow, to keep pay costs down.

This suggestion is to be made today by Mr. Noel Hepworth, director of the Chartered Institute of Public Finance and Accountancy. If adopted, the suggestion would mean an end to pay deals negotiated nationally by trade unions.

"The pressure on local authorities to reduce their expenditure will grow. A crucial factor in the coming winter will be the attitude of trade unions to wage settlements," Mr. Hepworth says in an analysis for The Three Banks' Review.

He says success in achieving lower settlements will depend in large measures on the climate of public opinion which central Government is able to generate.

The Government did not appear to have got over to many affected by public expenditure these points of its message about the economy—that capacity to finance public expenditure depends on its wealth-creating capacity; resources have to be diverted to wealth-producing at the expense of public expenditure; control of inflation is vital to maintenance of wealth-producing capacity; and higher pay without added productivity means higher inflation.

Local authorities were hampered because of the system of nationally-negotiated wage settlements. Trade unions usually insisted on minimum wage and salary levels being paid.

This prevented councils from responding, of exploiting local market forces in employment policies. Although change of policy would be difficult to negotiate, it would result in some savings on overall local authority wage and salary bills which now accounted for 70 per cent of all council revenue.

Mr. Hepworth also says that although there is much pressure from some sectors on local authorities to reduce expenditure, there is also a countervailing pressure at least to maintain minimum standards.

"Managers of local authority services are being squeezed between the pressure for reduction of expenditure and the pressure to respond to the problems of social deprivation and maintaining educational standards."

There may be a general acceptance that public expenditure should be reduced but there is no overwhelming public acceptance that specific services should be reduced.

Society would have to provide alternative arrangements and stop off-loading its problems on to the "State." That would require an important change of attitude but there was no evidence that anyone was attempting to condition society generally to recognise and accept that change.

In addition to these problems, local authorities themselves face major difficulties in deciding where cuts should fall, even in those councils which were trying as hard as possible to reduce expenditure.

The difficulties were highlighted in the declining economic areas of the country, those affected, for example, by the rundown of heavy industry.

"Is it best to relieve hardship by maintaining spending on social services, education and keeping housing rents as low as possible?"

"Or should the local authority recognise that to do that will, in practice, confirm the area in depression and produce no new investment which could, in turn, encourage the revitalisation of the area and reduce unemployment? The choice is difficult," Mr. Hepworth says.

House prices static for quarter

BY ANDREW TAYLOR

HOUSE PRICES throughout the UK continue to stagnate. Almost 70 per cent of estate agents replying to a national survey reported that prices had not moved during the three months to the end of August.

The findings of the monthly survey conducted by the Royal Institution of Chartered Surveyors are almost identical to the results of a similar study carried out at the beginning of August.

This time 67 per cent of agents nationally reported that house prices had remained static in the previous three months while almost 19 per cent said prices had fallen.

Demand remains strongest

THE BRITISH recession is likely to last at least another 12 months, with industrial output falling and unemployment steadily rising. But consumer spending should hold up and the annual inflation rate should drop sharply.

This is the general view of the main bodies which produce regular forecasts about the UK economy. The extent of agreement does not mean that the projections will be proved correct and all the forecasts necessarily involve a wide margin of error.

The degree of unanimity on at least the main features is however, significant in its possible influence on policymakers in Whitehall, on businesses and on City markets.

The accompanying table includes 12 projections which are representative rather than comprehensive.

The following comments and estimates also take account of

the projections of the ITEM Club, Economic Models, Chase Econometrics, Merrill Lynch, and stockbrokers Carr Sebag, Laing and Cruickshank, Greivson Grant, Wood Mackenzie, Capel-Cure Myers, de Zoete and Bevan, and T. C. Combs.

The striking feature compared with an earlier analysis of economic projections (published on December 28, 1979) is how much gloomier the forecasters have become about both the depth and length of the recession.

Last December, the average drop in real Gross Domestic Product this year compared with 1979 was expected to be 1.4 per cent. Now the average projected decline is 2.5 per cent.

Similarly, at the end of last year most forecasters expected that the economy would start recovering during 1981 and GDP

was forecast to rise by 1.3 per cent.

The latest estimate is a fall of 0.4 per cent with output continuing to fall until at least next summer.

The corollary is that unemployment is expected to rise more sharply than was thought likely last December—up to an adult total of nearly 1.8m by the fourth quarter compared with an earlier figure of 1.6m.

This revision may not have been sufficient since the adult UK total in mid-August was already nearly 1.7m, and rising fast.

It is generally true that the more up-to-date forecasts in the latest batch are gloomier than ones produced earlier in the summer, reflecting the deterioration in "real economy" shown in the official statistics. One result is also a

greater optimism in more recent forecasts about the current accounts prospect.

There is agreement about the main influences and the marked difference which is likely between the experience of producers and consumers.

The main squeeze is on manufacturing industry, where output is expected to rise of up to 0.8 per cent. This follows a 15 per cent jump between 1977 and 1979 and a small increase likely this year.

This is in turn a reflection of very sharp cuts in the level of stocks from earlier high levels, and of a sharp drop in fixed capital investment.

These are expected to be the main contractionary factors, the current spending of the public sector is expected to continue to grow this year, before falling slightly next year.

The tight competition and the strong pound—which are limit-

ing price rises and squeezing profits—are likely to benefit the consumer.

Average living standards, as measured by real personal disposable income, are expected to fall by 1.8 per cent at most next year and some forecasters anticipate a rise of up to 0.8 per cent.

This follows a 15 per cent jump between 1977 and 1979 and a small increase likely this year.

Consequently, consumer spending may not change much in either direction over the next 18 months.

The forecasters are generally confident that there will be a substantial fall in the 12 month rate of retail price inflation over the next year though there is a wide range of expected outcomes for the last quarter of 1981—between 9.3 and 14.1 per cent.

The problem beyond mid-1981 is to know how the large erosion in the competitive position of British goods will work through and what will happen to consumer spending and savings.

Earliest hope for recovery a year away

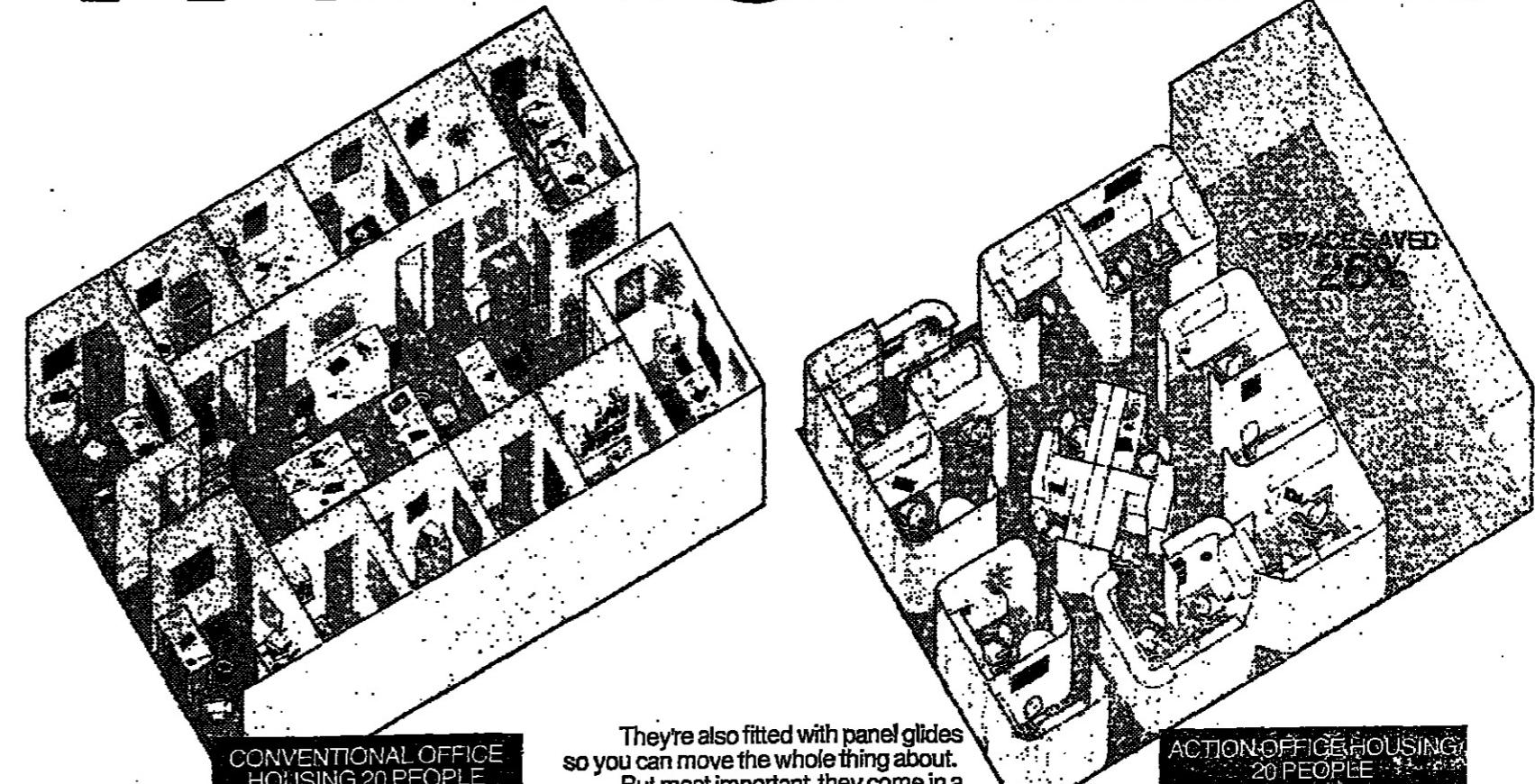
UK forecasts offer a unanimity of gloom, writes Peter Riddell

Percentage change year-on-year in constant 1975 prices unless stated	Treasury (March)	OECD (July)	London Business School (June)	National Institute (Aug.)	Confederation of British Industry (Sept.)	Economist Unit (Aug.)	Cambridge Econometrics (June)	Henley Centre (Sept.)	Staniland Hall (Aug.)	Phillips and Drew (Sept.)	Hoare Govett (Sept.)	James Capel (Sept.)
Gross Domestic Product	-2.5	-2.25	-2.3	-1.8	-2.3	-2.5	-3.1	-2.2	-2.8	-2.5	-1.3	-4.6
Consumer Spending	—	-1	-0.4	+0.6	-0.6	-1.8	-0.7	+0.2	-0.6	-0.9	+1.8	+0.4
Exports	+0.5	+1	+0.5	+0.2	+0.5	+0.5	-1.9	+0.2	+0.6	+0.1	+0.3	-0.9
Imports	+2.5	+1.25	+0.5	+0.1	+0.6	-0.9	-1.6	+0.6	+1.5	+1.3	+3.7	+0.3
Manufacturing Output	-4.5	-3.75	—	-6	-6.8	—	-6.7	-6.7	-5.5	-5.5	—	—
Retail Price Inflation (year to fourth quarter) [†]	16.5	—	19.1	16.6	15.4	17.6	—	17.0	17.5	17.0	15.5	16.7
Unemployment (adults, fourth quarter, million) [‡]	—	—	12.9	13.5	11.2	14.2	—	13.6	11.5	12.7	9.8	9.9
Current Account (£ billion)	-2.75	-1.1	-1.9	-0.8	-0.5	-0.4	-1.8	-1.83	1.69	1.85	2.19	2.0
Public Sector Borrowing (£ billion)	8.5	—	8.77	9	9.1	—	-1.2	+1.04	—	-0.4	+0.71	-0.07
1980-81	—	—	7.20	6.2	—	—	+2.45	—	—	+0.7	+2.46	-1.2
1981-82	—	—	—	—	—	—	—	—	—	10	9.25	11

[†] Retail price inflation for year to fourth quarter for all except London Business School, National Institute and CBI where consumer price inflation over same period.
[‡] Unemployment—UK figures in fourth quarter for all except London Business School and National Institute where Great Britain (excluding Northern Ireland) figures for same period.

* Organisation for Economic Co-operation and Development projections for 1981 are for first half only and show change compared with previous six months at an annual rate.

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herman miller
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Volvo extends dealer contracts

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

VOLVO Concessionaires, the Lex Group subsidiary, has become the first car importer to offer its dealers five-year agreements.

The Motor Agents Association said yesterday it was "absolutely delighted" with the arrangement and claimed that the Volvo contract would be "95 per cent in line with our terms for a model agreement between importer and dealer."

The association has been fighting for longer agreements for its members "in the light of the kind of investment a dealer

has to make these days."

Some importers are still giving dealers contracts with only 30 days' notice and the association has particularly criticised some importers of Japanese cars about their terms.

In the past Volvo Concessionaires has given dealers contracts of two years. Most of them expire in January 1982, when the new terms will apply.

UK NEWS - LABOUR

Joseph 'dialogue of death'

By Nick Garnett, Labour Staff

UNION LEADERS met Sir Keith Joseph, Industry Secretary, yesterday to discuss the state of the engineering industry in general. They left with almost nothing meeting their catalogue of requests for industrial and financial assistance.

The meeting was the first between Sir Keith and the Confederation of Shipbuilding and Engineering Unions on problems facing the whole engineering industry.

The unions will present further information in writing, to which Sir Keith will reply. A further meeting between him and the confederation on problems of the industry was agreed but no date fixed.

Some union officials took this to be one of the most significant results of the meeting, that some form of dialogue had begun on the difficulties facing the country's principal industrial sector.

Sir Keith said however that he did not believe the Government could or would make any immediate moves to satisfy the union's expectations.

His department described the meeting as "friendly and constructive." However, Mr. Ken Gill, general secretary of TASS, the white-collar section of TASS, the Amalgamated Union of Engineering Workers, told the press it was a "dialogue of death."

Mr. Terry Duffy, AUEW president, said there had been no "solution" whatever on interest rates, the strong pound and import penetration. Sir Keith said there were no Government panaceas. He agreed to study, and to reply to, the unions' arguments for Government assistance on energy and fuel costs for manufacturing.

Printing of Daily Star in London extended a month

BY JOHN LLOYD, LABOUR CORRESPONDENT

A THREAT by the Express Group to close the London printing operation of the Daily Star on September 27 has been lifted for a month from that date to allow talks between unions and management on economies.

Lord Matthews, chairman of the group, told leaders of the five print unions at a meeting yesterday that he wanted £2.5m savings made on the Manchester-based tabloid, though he did not specify over what time period.

It is believed that the Daily Star is heading for a loss of around £6m in the current year.

Lord Matthews said the two-and-a-half hour meeting had gone very well, and that he was hopeful further talks would safeguard the Star's London

He had reportedly been impressed by an offer, made

last week by engineering workers with the group to take a cut of 5 per cent in their wages as a contribution to savings.

The print union leaders made it clear that a similar offer would not be made on behalf of their members. They agreed, however, to identify areas where savings could be made.

In the course of the discussions, Lord Matthews is said to have criticised Government policies as contributing to the current recession. Both the Daily and Sunday Express strongly support the Government, though the Star has developed an editorial line more sympathetic to Labour.

The unions raised the issue of a possible merger between the Evening Standard, owned by the Express Group, and the Evening News, owned by Associated Newspapers. They were told

that the exploratory talks had been going on between the two companies for some years, but that they had not intensified recently.

Lord Matthews gave a commitment that any serious plans to merge the two London evening papers would be discussed at an early stage with the unions.

No details were given of the economies which the Express Group hopes to make, though the management believes that these need not involve redundancies.

The print union leaders told Lord Matthews that the Star had not been sufficiently prominent in the south.

• Gareth Griffiths writes: The Liverpool Daily Post and Echo yesterday agreed to "full consultation" with its nine unions over a major economies

PM to see paper industry group

BY PAULINE CLARK, LABOUR STAFF

THE Prime Minister has agreed to meet a joint delegation of employers and unions from the newspaper industry. Mrs. Thatcher will hear their renewed appeal for Government help to prevent the collapse of newsprint production in Britain.

The meeting will take place at the end of next week. It is expected to include Mr. John Adams, director general of the British Paper and Board Industries Federation, Mr. Bill Keys, general secretary of the Society of Graphical and Allied

Trades, and representatives of the Newspaper Publishers' Association, the Fleet Street newspaper body.

The meeting will also be attended by executives of the Bowater paper company. The company's newsprint plant in Ellesmere Port is threatened with closure this autumn.

All sides of the industry are worried about this year's sudden rundown in British paper production because of competition from foreign paper imports.

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Dockers' maximum severance pay raised

By Pauline Clark, Labour Staff

THE MAXIMUM severance pay for Britain's 24,000 dockers was raised by £2,000 to £10,500 under new plans aimed at reducing surplus dock labour announced to trade union leaders yesterday.

Dockers will also be able to retire at 60, instead of 65, if they choose, with no reduction in benefit. With additional improvements in pensions, dockers with 20 years or more experience will also be able to claim a maximum £12,500 if they have voluntarily left the industry since August 1, this year.

But the continuing problems caused by surplus labour in Britain's docks, and especially in Liverpool, was stressed at a special meeting yesterday when Liverpool dock leaders told employers that they were prepared to shut the port from next week unless they received a guarantee that new jobs will be found for 53 redundant shore gang and clerical workers in the port.

The severance plans were unveiled at a meeting of the national joint council for the ports' industry, only a day after dockers called off a national strike, following an employers' undertaking not to make 180 Liverpool dockers redundant from next week.

The Liverpool dockers' dispute had drawn attention to the financial plight of the port, which has about 800 dockers on its payroll for whom there is no work. It is hoped that the new severance and early retirement concessions will help relieve Liverpool and other ports of the surplus labour problem.

Liverpool employers hope

the cost of re-employing 180 men to be made redundant by T. and J. Harrison and Bulk Cargo Handling Services next week will be offset by a greater acceptance of voluntary severance, and by early retirement.

Mr. James Fitzpatrick, chairman of the Liverpool Port Employers' Association, said last night that the dock labour pool contained about 250 dockers aged over 60. He believed the increase in severance terms under the National Dock Labour Scheme would have "a marked impact."

Dockers over 60 will be able to commute part of their entitlement into a tax-free lump sum in excess of £2,000, giving them a maximum payout of £12,500. Meanwhile, dockers with five years' experience will receive £3,750 in severance pay those with ten years, £6,000, and those with 15 years, £8,250.

Liverpool dockers' leaders in the Transport and General Workers' Union and employers will resume talks in the port today to discuss the problem of the ancillary workers employed by T. and J. Harrison, who are not covered by the jobs protection agreement applying to dockers under the National Dock Labour Scheme.

UNIONS WHICH have still to decide their position on the three constitutional amendments which will be debated at the Labour Party conference in Blackpool next week have expressed considerable confusion over what they will be called on to support.

The country's third largest union, the General and Municipal Workers' Union, has yet to come to a final decision on how

it will cast its 850,000 votes.

Senior officials yesterday

expressed doubt over the proposal for an electoral college to

concerned at the continuing recession and closures affecting manufacturing industry, particularly engineering, steel, chemicals, textiles and footware.

Britain faced "the prospect

of losing between a fifth and a quarter of all jobs in the engineering industry within two or three years and of grave reductions in other industries which will never be recovered."

It called on the Government to act "to reduce substantially interest rates, bring the level of the pound down to a competitive level, assist industry by reducing employment surcharges on national insurance contributions, and cut taxes on oils used in industry."

Commenting yesterday on un-

employment Mr. Grantham said: "We anticipate that tomorrow's unemployment figures will be 2.100,000 in September and will continue to rise at a rapid rate thereafter."

The executive was "deeply

concerned at the continuing re-

cession and closures affecting

manufacturing industry, parti-

cularly engineering, steel,

chemicals, textiles and foot-

ware."

Mr. Roy Grantham, general

secretary of the white-collar union, said yesterday the Government was losing control of the economic situation and, unless policies were changed, unemployment would gallop to 3m in under two years.

On the eve of release of the figures, APEX launched an attack on the Government's economic policies.

Meeting at the weekend, the 150,000-strong union's executive council passed a three-part resolution.

It rejected "as totally unacceptable and deplorable the present level of unemployment which will be 2.100,000 in September and will continue to rise at a rapid rate thereafter."

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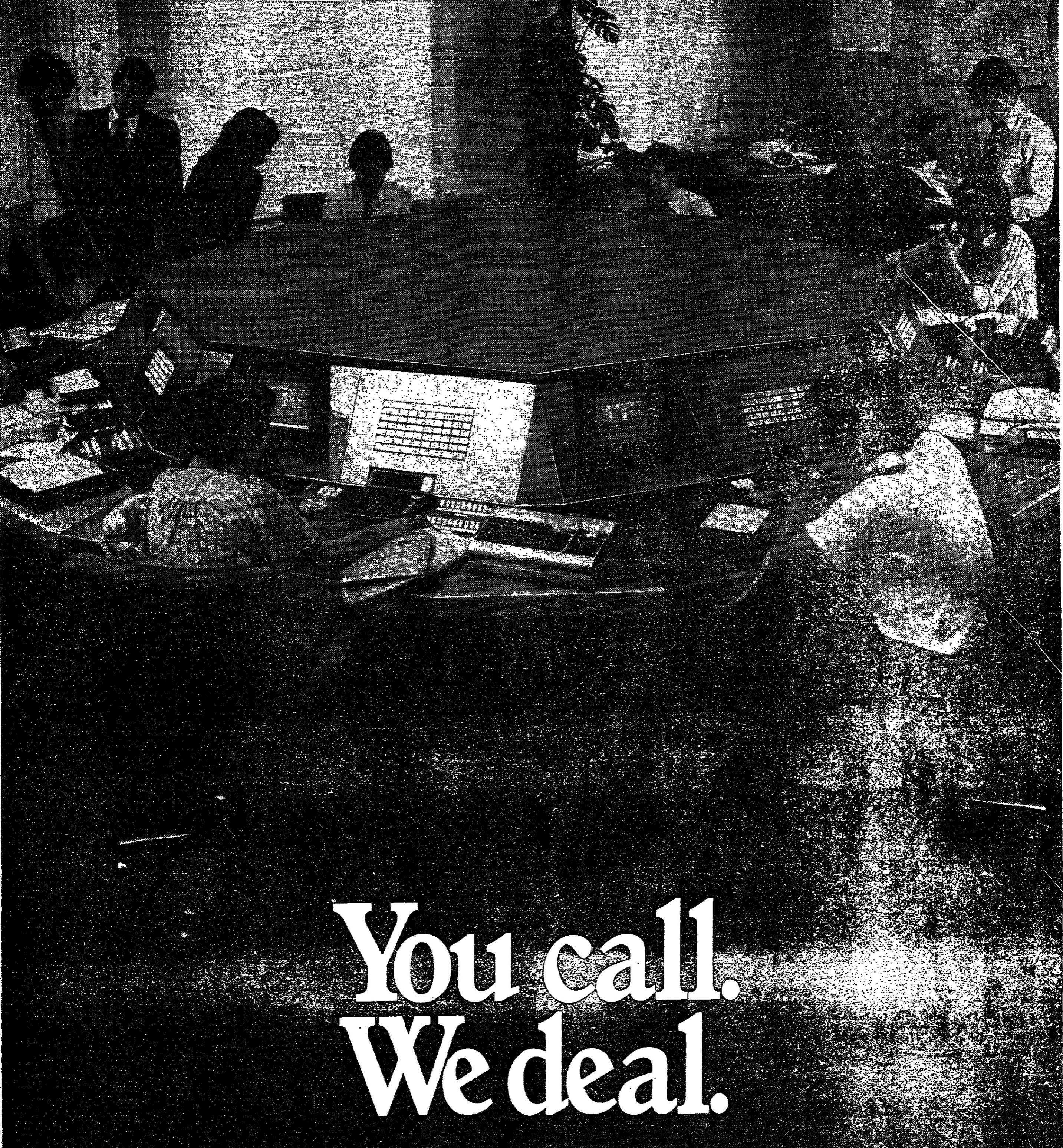
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JOBS COLUMN

Advice service at risk as redundancy rises

BY MICHAEL DIXON

"RETAIN COMPOSURE for a moment," the senior official said. He was reacting to the Jobs Column's sharp intake of breath as he disclosed to it the latest available figures for registered unemployment among managerial and specialist staff in the United Kingdom.

The surprise which had provoked my gasp was not naive. I know that unemployment figures for the end of August which have not been adjusted to compensate for seasonal fluctuation, are inflated by the surge of new job-seekers leaving education. In the case of "higher-level" joblessness, these seekers include graduates and school-leavers with GCE Advanced-level examination passes, who aspire to work in one of the managerial and specialist categories even though they may have no previous experience of the job concerned.

Even so, the current figures felt eminently gasp-worthy. From the end of June to the end of August last year, the registered higher-level unemployment rose by nearly a quarter from 56,947 to 70,960. This year the corresponding increase has been 46 per cent from 63,152 to what must surely be a record figure of 92,197. Why therefore the official warning against getting hot under the collar?

It transpired that, although the statistics for the latest count do not show it, there has been evidence that people leaving education this year have been unprecedentedly quick to get themselves on the register. So there is support for the official quarters feel that of the

near-30,000 increase in the total since June, something towards 20,000 represents youngsters who are not so much unemployed, as not yet employed in the sort of work they think they would like.

Whether this feeling is right will not be sure until the next quarterly count which separates out the new seekers, is made next month. In the meantime, therefore, I have analysed the end-August figures (which means sorting out and adding up 925 sub-sub-categories of staff scattered over six sheets of computer print-out with three columns of figures apiece and every a sub-total in sight), and compared them with the breakdown produced for this column's previous discussion of the statistics at end-March.

As the table shows, despite increases in absolute numbers, there have been falls in the percentages of the total joblessness represented by the two biggest categories. Even at 16,322, by the way, the number of teachers registered represents only about 2.5 per cent of the total of full-time teaching staff employed in British State education.

Of the categories showing percentage increases, most seem to be kinds of occupation likely to be aspired to by people leaving education, and so probably include large number of inexperienced seekers. Examples of these among the 17 major categories given in the table, are: data processing, libraries, art galleries and museums, and the social and health services.

So while the figures may not be reason for going hairless, which are

JOBLESS HIGHER-LEVEL STAFF IN BRITAIN (not seasonally adjusted)									
Categories of staff (17 largest only)	Numbers registered as unemployed at end-August			Number registered at end-March					
	Men	Women	Total	% of grand total	Total	% of grand total			
Teaching	5,911	10,421	16,322	17.7	12,293	18.9			
Sales and marketing	8,809	1,530	10,339	11.2	7,527	11.6			
Libraries, art galleries etc.	4,475	3,385	7,860	8.5	4,808	7.4			
Social and health	2,332	2,584	4,916	5.3	3,302	5.1			
Engineers	4,249	58	4,307	4.7	2,663	4.1			
Data processing	2,744	722	3,466	3.8	1,738	2.7			
Office managers	2,810	591	3,401	3.7	2,740	4.2			
Administration managers	2,410	952	3,362	3.6	2,015	3.1			
Personnel	1,625	1,343	2,968	3.2	2,104	3.2			
Production managers	2,860	59	2,919	3.2	2,368	3.6			
Accounting	2,480	359	2,839	3.1	1,771	2.7			
Estate agencies	1,338	1,447	2,785	3.0	1,898	2.9			
Miscellaneous specialist managers	1,505	493	1,998	2.2	1,456	2.2			
Transport & warehouse managers	1,794	28	1,822	2.0	1,596	2.5			
Biologists	1,100	622	1,722	1.9	1,045	1.6			
Construction managers	1,660	7	1,667	1.8	1,440	2.2			
General management	1,505	69	1,574	1.7	1,452	2.2			
Grand total of higher unemployed	64,616	27,587	92,197	100.0	64,902	100.0			

among experienced staff is not

they are certainly no excuse for complacency. And they scarcely indicate a time when the British Institute of Management should be deciding to curtail a service which, among other things, offers managers and specialists who lose their job a comprehensive, independent and regularly updated means of checking on the growing number of "executive-redundancy counsellors."

The counselling offered by such firms varies from basic self-assessment and self-marketing sessions costing roughly £100 or even less—which are

probably all that most jobless higher staff need—to elaborate "packages" costing several thousands. As a result, in the shock of dismissal, executives are liable to sign up for treatment beyond both their requirements and their pocket, unless they have some check such as that provided, solely to my knowledge, by the BIM.

This is not to say that the institute is ditching the service entirely. The answer is presumably expense. Like the counterpart operation checking on management courses which is also to go, the consultancy-venting costs the BIM roughly £30,000 a year. Why it need do so, however, is less clear. Nobody can know whether those wanting the consultancy check, and perhaps the consultants it keeps track of, would be willing to pay a charge to continue to have it available. But it would seem sensible to fritter away a unique accumulation of data built up over years without first testing whether or not it could finance its own further development.

But that is what the BIM has apparently decided to do. Could this be, I wonder, yet another example of unenterprising British management?

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"NEWLY QUALIFIED ACCOUNTANCY APPOINTMENTS"

THURSDAY 25th SEPTEMBER 1980

The Financial Times has arranged with the Institute of Chartered Accountants to publish a list of those candidates who were successful in the recent Part II examinations.

We propose to publish the list in our issue of Thursday, 25th September, 1980, which will also contain several pages of advertisements under the heading of "Newly Qualified Accountancy Appointments."

FINANCIAL TIMES

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BOND DRAWINGS

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S. G. WARBURG & CO. LTD., announce that the semi-annual redemption instalment due 1st October, 1980, has been met by purchases in the market to the nominal value of £5,000 and by a drawing of Bonds to the nominal value of £2,100.

The distinctive numbers of the Bonds, drawn in the presence of a Notary Public, are as follows:-

£100 Bond Nos:		7279	7503	7747	7992	8270
\$100 Bonds		8932				
£500 Bonds						
\$100 Bonds						
7	43	112	133	172	193	501
647	605	668	714	737	772	835
964	1022	1067	1108	1178	1199	1241
1334	1351	1460	1492	1523	1582	1612
1738	1769	1813	1863	1909	1942	1991
2141	2172	2201	2231	2257	2277	2312
248	252	255	258	260	262	264
2922	2988	2021	2055	2058	2105	2144
3316	3362	3404	3417	3437	3484	3542
3652	3707	3758	3811	3841	3894	3905
4089	4150	4181	4203	4284	4314	4349
4562	4591	4604	4630	4684	4703	4742
5243	5272	5302	5358	5408	5501	5512
5707	5740	5790	5809	5855	5942	5975
6084	6111	6123	6160	6195	6217	6239
6449	6481	6531	6559	6575	6687	6709
6852	6871	6917	6934	6955	6981	7025
7131	7163	7188				

On the 1st October, 1980, assented Bonds will become payable at the new par value of £174 for each £100 nominal, together with accrued interest to date at the rate of:-

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£337,100 nominal Bonds will remain outstanding after 1st October, 1980.

The following Bonds drawn for redemption on the dates stated below have not as yet been presented for payment:-

1st October, 1975		£100 Bond Nos:	2734	5254
1st April, 1977		3056	4316	5002
1st October, 1977		5016	6141	
1st April, 1978		870	4830	
1st October, 1979		138	604	1163
		3010	3061	3117
		4624	4867	4954

Technical Page

EDITED BY ARTHUR BENNETT AND ALAN CANE

• COMMUNICATIONS

Plessey moves data faster

PLESSEY HAS taken a short lead in the race to provide the fastest equipment to transmit voice and data over telephone lines.

It announced last week a device enabling the digital transmission of voice and data over telephone lines at rates of up to 16,000 binary digits (bits) a second, some 86 per cent faster than equipment now available.

Now the company is establishing a network of distributors worldwide to market the new product. It is talking chiefly to established suppliers of data communications equipment.

The device is a modulator-demodulator (modem), the 6002, which converts digital signals generated by, say, a computer or digital telephone exchange, into a form in which they can be transmitted in analogue fashion along ordinary telephone lines.

Fastest commercially available modems handling both voice and data work at rates up to 9,600 bits a second.

The new Plessey modem will find applications in large

• IN THE OFFICE

Electronic typewriters

THE SWISS company Hermes Precisa International is introducing through its U.K. subsidiary in Colchester a range of three electronic typewriters and a word processor that cover a wide spectrum of office typing needs.

Top-tronic 20 for example will introduce the typist quickly and easily to this kind of work. It has no text storage but a full range of page setting functions will save the user time and effort.

Models 40 and 41 on the other hand allow repetitive sentences, dates, greeting formats and some standard text to be called from a memory. In addition, the presentation functions include centring, underlining, bold typeface, paper insertion, tabulation and justification. There is a choice of five type pitches: 10, 12, 15 plus mini or full proportional spacing.

Model 40 has a 1,000 character memory in ten blocks while the 41 can keep 4,000 characters and has visual display of 20 of them to allow correction of what is keyed before it is printed.

Both of these machines have a correction memory capacity of 222 characters and a buffer that allows automatic correction on the current or previous lines. Memory is protected for 72 hours after the machine has been switched off.

At the top of the range is the Hermes WP 3200, a word processor with a single element printer. In addition to all the facilities of the model 41, the machine also provides operating "help" messages in the display panel to assist the user. The memory capacity in this case is 7,000 characters and there is a short text memory of 2,000 characters for immediate access to frequently used material. With the addition of mini-disks each holding 70,000 characters the total storage of text can be considerable.

Hermes Precisa (UK) is at Centurion House, St. John Street, Colchester, Essex (0206 65115).

• MATERIALS

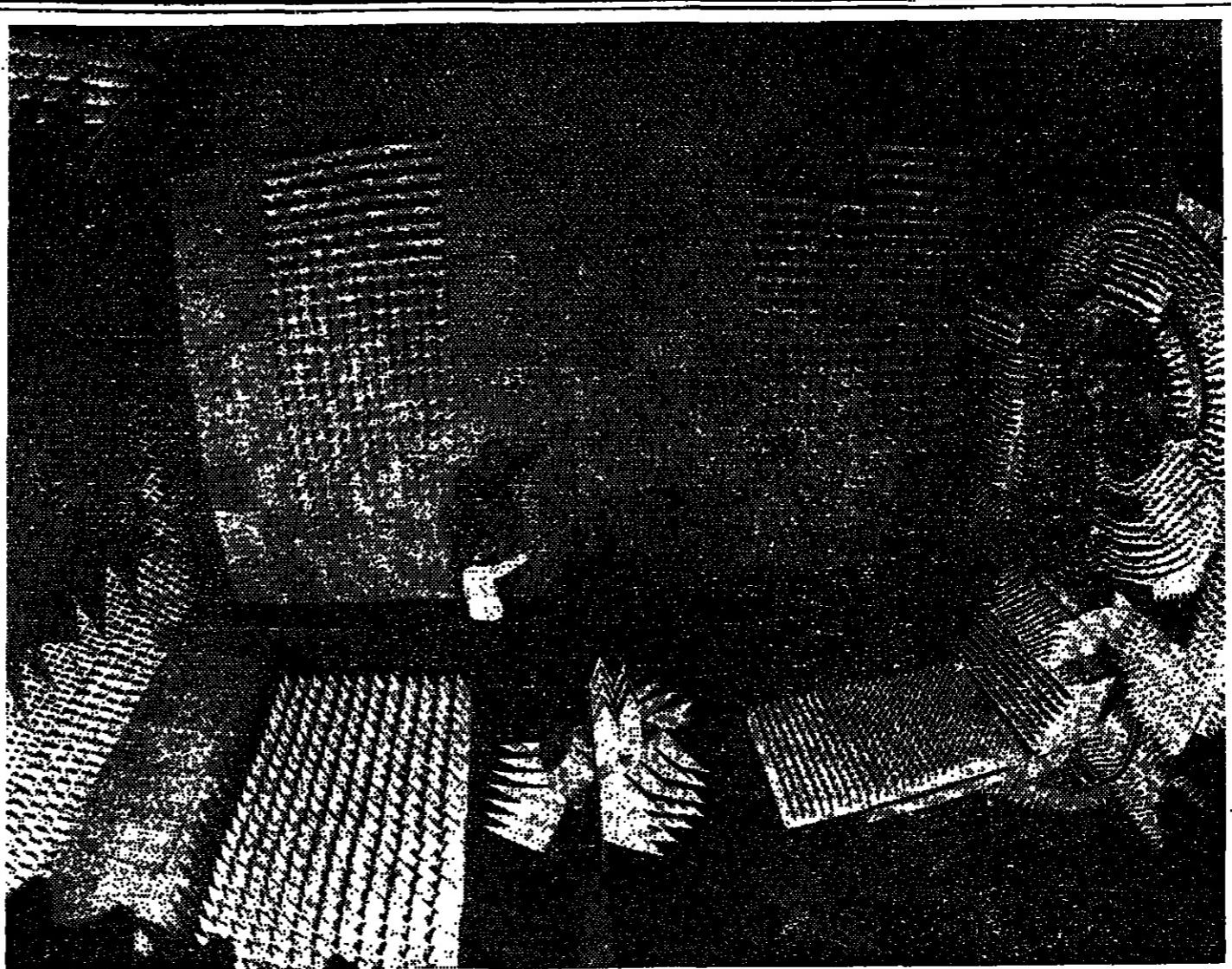
Barrier to noise

HELPING TO overcome the exhausting effects of protracted high frequency noise (which industry now recognises as a major health hazard) is a new sound deadening material from Visurgis (Great Britain), Towerfield Close, Shoebury Ness, Essex (037 08 5955).

A rubber compound, unaffected by humidity and the effects of ozone ageing, the material is simple semi-automatic tools supplied by Astralux. The company will also install Quick Connect sockets and terminals in prototype circuit boards supplied by the customer.

Quick Connect is available in three forms. Contacts and terminals can be supplied in ban-dolier strips for mass installation by the customer using simple semi-automatic tools supplied by Astralux. The company will also install Quick Connect sockets and terminals in different colours where visual, as well as noise control, aspects are important.

Solid wire of 30 gauge is pushed in to the tine with a simple hard plastic wiring style. The insulation covering the wire is pierced by the tine, making a tight electrical connection which is claimed to be safe in gas-tight atmospheres. Each tine can take two wires, making it the equivalent of two



This indoor microwave test range has been commissioned at Stevenage, Herts, by the Reinforced and Microwave Plastics Group of British Aerospace Dynamics. It was built specifically for use in advanced military aircraft radome tests which can be performed at frequencies from 2 GHz to 40 GHz. The range incorporates a precision positioning mechanism on which the item under test is mounted and presented to

the incident microwave energy. The positioner can be controlled either manually or automatically. The Group which has built indoor compact microwave test ranges for British Aerospace's own use is now offering a service to industry covering specification, design, manufacture, and commissioning of such ranges.

How to have your fiche and change it

BRIEFLY mentioned on this page in February, the Bell and Howell document recording system using a dry, silverless light-sensitive film called Microx has now been formally launched by the company and a description of the technique released.

The development is important in a number of ways. Not only does it do away with increasingly expensive silver halides but, of more significance, it allows the erasure and replacement of selected areas of image so that, on a microfiche for example, an out-of-date frame can be taken out and replaced by another. By the same token, further images can be added into the previously empty locations on a fiche. Or the whole fiche can be wiped out and re-recorded.

Images are formed (or re-formed) by a combination of electrostatics and plastic deformation. The Microx master film is completely insensitive to normal room light levels. It consists of an upper layer of deformable plastic which is also photo-conductive; under this are a conductive layer, polyester base, and scratch resistant coating.

In darkness a high resistance path is present between the plastic layer and the conductive underlying layer so that, if the

upper layer is electrostatically charged, it will retain that charge. If now an image is projected onto the upper surface the clear portions will give rise to low resistance paths to the conductive layer, so dissipating the charge in that area. The dark areas on the other hand retain the charge.

To make the image visible the film is heated to about 100 deg C causing the upper plastic layer to soften; because an electrostatic force of attraction now exists between the surface and the conductive layer, the plastic is pulled down towards the conductive layer where alpha-numeric characters exist. The image is then made permanent on cooling.

At a slightly higher temperature (140 deg C) these "embossed" images can be made to flow again: selective heating of the fiche can remove specific frames, which can then be

• DATA PROCESSING

More new machines

AS FORESHADOWED on this page in mid-August, General Automation has now formally announced "The Boss" models 1, 2 and 3, which are respectively a micro, mini and a larger scale minicomputer aimed at a wide spectrum of commercial applications.

Design and manufacture is taking place in the U.K. to the extent of about 80 per cent added value, although the processor boards are being made by the U.S. parent.

The U.K. company expects to sell about 200 machines in the first year into both OEM and end user markets and some of

them will be sold into the U.S. The new computers will supersede GA's Mini-Tom range of minis.

Boss 1 is a single screen floppy disc based micro with 128 kilobytes of memory and inexpensive low speed printer, intended for the small business first-time user at a price of £6,000.

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• COMPRESSORS

Sullair in UK market drive

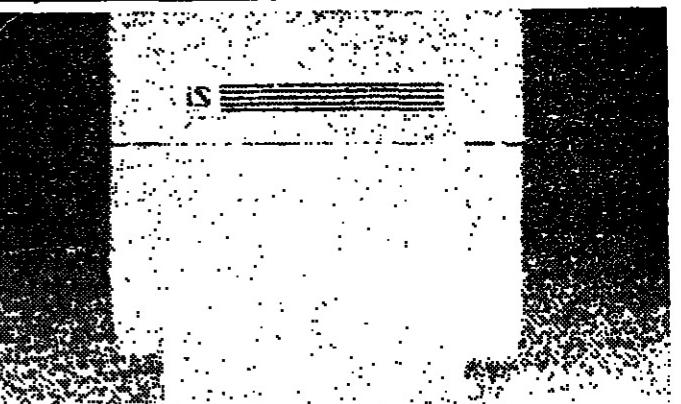
BOTH mobile and stationary types of air compressor are to be marketed in the U.K. by Sullair. They are to be sold and serviced through a distributor network being set up by the company at 274, High Street, Uxbridge, Middlesex UB8 1LQ.

Initially, four machines in the portable range are being launched. These will have outputs of 99, 140, 177, 247 cu ft per minute respectively at a delivery pressure of 7.5 bar. Each is of the twin screw, single stage type, direct driven from a Deutz air-cooled diesel engine.

For special applications, such as shot blasting, an integral air cooled after cooler can be fitted to produce a lower discharge temperature, while an optional lubrication system can be fitted to prevent frost damage to tools during winter working.

The machines are housed within acoustically engineered canopies which, it is claimed, reduce noise output to about 70dB (A) at 7 metres. Each is equipped with two-wheel road running gear.

The stationary compressors available are in 20 sizes from 69 to 3,581 cubic feet per minute. Most are available with a choice of pressures of 7.5, 10 and 15 bar. All are supplied as package units, ready for installation.



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AN INVESTMENT accounting service has been launched by dataStream, the time-sharing computer bureau for the financial securities industry.

It is described as a full security accounting package for institutional fund managers, and it has been designed by dataStream with the collaboration of three of its clients, a unit trust, a pension fund and an insurance company.

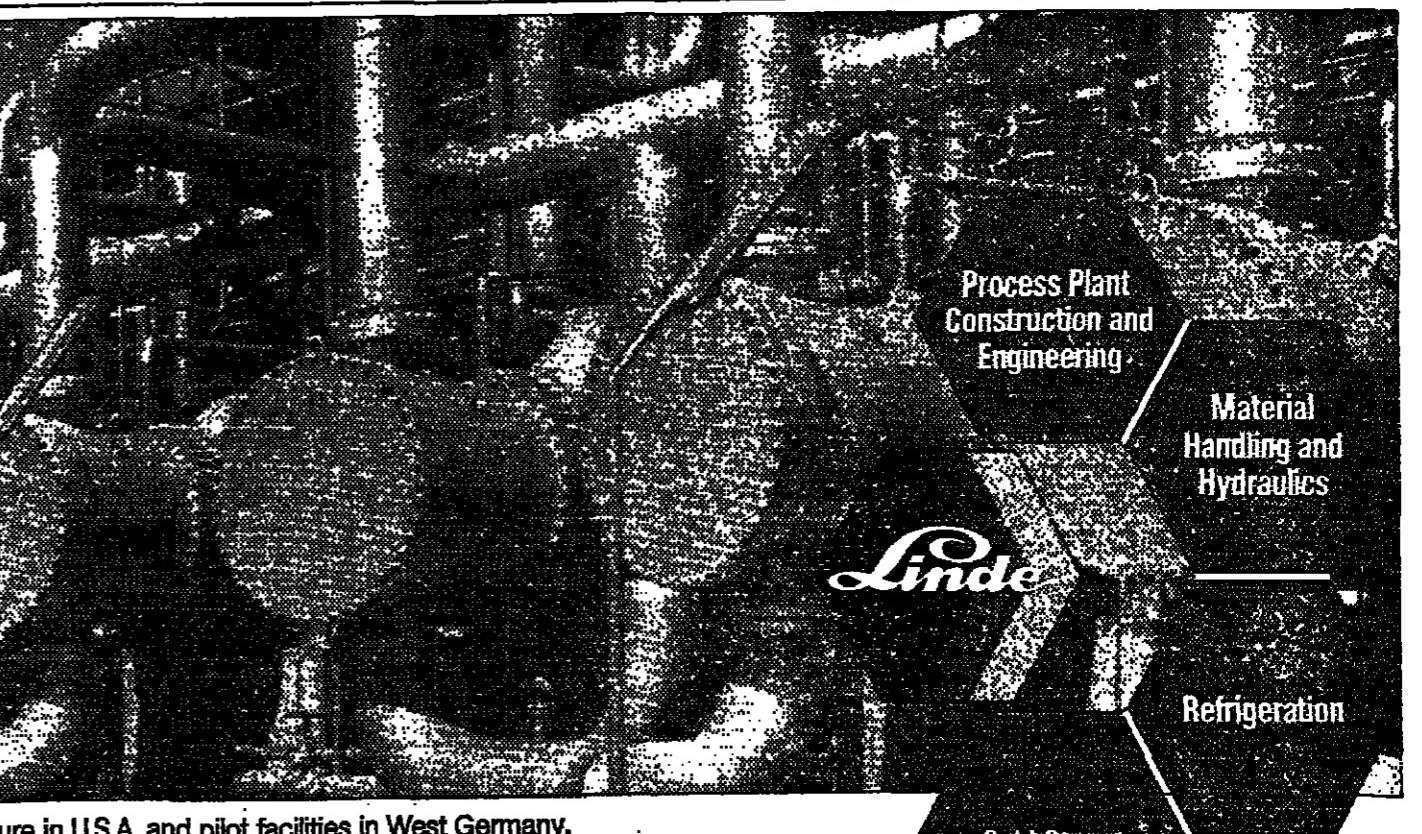
The package comprises three parts, dataStream said this

week, investment ledger, income systems and broker settlements.

The package links in with the existing dataStream on-line service - updating and accounting are accomplished using a video display terminal in the client's office.

The cost depends on the facilities included but a typical customer might spend £10,000 to £15,000 a year on the service.

It is now undergoing user trials at a number of sites. dataStream is on 01-600 6411.



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THE MANAGEMENT PAGE

European markets prove elusive to the UK

BY GEOFFREY OWEN

A GOOD many British companies, including some which were strong supporters of EEC membership, are disappointed by the results. Although exports to Continental Europe have certainly increased, expectations of an "enlarged home market," giving a fillip to efficiency economies of scale and specialisation, have been only partially fulfilled.

Doing business in France or Germany, whether through exports or local manufacturing subsidiaries, has proved more difficult than expected; acquisitions have been a particularly uncertain route into the market. Of course there are exceptions. For some manufacturers, sales on the Continent have become the most dynamic element in their business. But the general impression, reflected in the trade figures, is that Continental companies have been quicker and more successful in attacking the UK market than vice versa.

Is this the fault of British companies or of the way in which the EEC is organised, and what can be done about it? Some light is shed on these questions in a study carried out by Arthur D. Little, the consultants, for the Anglo-German Foundation. Based on interviews with a sample of German and British manufacturing companies (35 in each country), the study describes how far their attitudes, strategy and performance conform to the "enlarged home market" concept.

A curious contrast between the two countries is that, while several of the British companies had gone to some lengths to devise a "European" strategy and to promote a "European image to take advantage of EEC membership, the Germans took the whole idea much less seriously.

This is partly because they have been used to exporting to their Continental neighbours. The creation and subsequent enlargement of the EEC did not require any great changes in their products or their sales organisation. They were content to continue their traditional policy of exporting from their domestic base.

When they did embark on manufacturing outside Germany, their approach was equally cautious. The researchers asked the German companies whether a firm would choose for its marketing manager a German who was familiar with the corporate philosophy but did not have a versatile international outlook, or a very international Dutchman who was less in tune with the corporate philosophy. Most respondents thought their companies would pick the German.

Whereas German companies regarded being German in style, approach and image as essentially European, there was a perception among UK companies that being European was very different from being British. They saw a reorientation towards the EEC as both necessary and extremely difficult.

The study suggests that for several British companies the problem lies not in the quality of their planning for Europe but

in half-hearted implementation. These companies had well-conceived, sometimes elaborate plans but they were not backed by the level of investment, managerial resources and drive to make them a reality.

This may reflect the tendency of British companies to spread their marketing effort too thinly across the world. To the extent that their resources are too widely spread or their managerial attention is distracted, they are vulnerable in their home national markets to inroads from their EEC competitors and are likely to find it increasingly difficult to establish strong positions in EEC markets."

The study notes that about half the sample British companies (and a significant but smaller proportion of German companies) placed more emphasis on penetrating the U.S. market than the EEC. But there are sound reasons for this view, as the study itself makes clear. The U.S. is a large, barrier-free single market, easier to penetrate than the EEC as a whole, and much bigger than any one part of the EEC. The fact is that because of cultural differences and non-tariff barriers the EEC is still to a large extent a collection of separate markets which have to be tackled individually.

Pseudo

To illustrate the point, five German companies had built factories outside Germany, for the following reasons:

- a plant in France to get sub-contracts on export orders for French engineering companies;
- a plant in Italy to avoid the impact of environmental regulations affecting the chemical composition of products, which in practice applied only to imports;
- plants in several countries in order to get government contracts there and special subsidies;
- plants to get regional development benefits;
- plants to circumvent the uncertainties of exchange fluctuations.

For several companies differences between EEC countries were as significant as those between an EEC and a non-EEC country. While economies of scale might call for one large plant to supply the whole market, political realities required the creation of local plants or at least "pseudo-plants" to overcome national prejudices. EEC integration had also been held back (especially in France) by restrictions on foreign investment and on acquisitions by foreign companies. Preferential public purchasing policy, especially in France and Italy, was another important hurdle.

Differing national product standards posed a far more serious problem for the British than the German companies. This is partly because German standards tend to be more stringent than those of other countries, possibly reflecting a difference in expectations about quality. If a company can

WHILE THE objectives of energy conservation are the same for everyone—to optimise on fuel consumption—the techniques for implementing an effective management programme differ according to the type of business.

An energy manager would find his task at a manufacturing company very different from that at the headquarters of a large insurance company, for example. The main energy source at a factory would probably be a massive generator to drive, say, a cigarette making machine while the insurance company's energy consumption would be confined mainly to office heating/ventilation and lighting.

For the High Street retailer, the problem is different again. In its case, there is direct contact with the public at all times and factors such as sales floor lighting—a major element in the energy budget—are important considerations.

One of the most impressive energy management programmes by a High Street retailer is being run by Marks and Spencer, the foods to clothing group, with 252 stores throughout the country. The company's energy usage is particularly high because of recent rapid expansion into chilled and frozen foods; in addition an increasing number of stores have recently had full air conditioning installed.

The company's commitment to energy conservation has, since 1974, been obsessive with starting results. Marks and Spencer estimates that it had not begun to introduce savings measures then the total energy bill for the current year would be £11.2m—almost £3m more than the anticipated actual cost.

Since measures were introduced in 1974 the company has saved a total of £12.6m for a capital investment of around £1.7m.

The success of the programme is better illustrated by the fact that in volume terms (units of electricity) consumption is now little more than 1972 levels in spite of a 50 per cent increase in total building area and the hefty commitment to chilled and frozen foods.

And all of this has been achieved through only one full-time appointment backed up by the part-time involvement of store managers and many of the staff.

The entire energy management programme is co-ordinated through energy manager George Colman. Energy conservation officers report to him through each store manager.

An important part of the programme has been to encourage staff at all levels to become

Good housekeeping in store

Arnold Kransdorff reports on Marks and Spencer's energy saving measures

more energy conscious. To do this, the company gives lectures to all new staff members, locates "Switch It Off" labels above all light switches, "Turn It Off" labels over radiator control valves, and runs competitions for energy saving measures and slogans. In addition there are poster campaigns and articles in the company's house journal.

This is backed up with some enterprise technical innovation.

So far the best results have been achieved with sales floor lighting, one of the most important elements in ensuring that merchandise is shown to best effect.

In Marks and Spencer's case an energy audit in 1973 showed that sales floor lighting was the single largest item of energy expenditure, equal to 40 per cent of total electricity consumption. This has, quite spectacularly, now been reduced to about 26 per cent.

One of the first measures taken was to reduce sales floor illumination by about 40 per cent. Perimeter lighting was then reduced from twin to single fluorescent, eliminating about 60,000 ft of tubing for an annual saving of about £0.15m.

During the appraisal of lighting levels it became apparent that more efficient light sources could be employed, says Marks and Spencer. So, in collaboration with Philips, a new fluorescent tube was developed giving a light output 40 per cent higher than the one previously used.

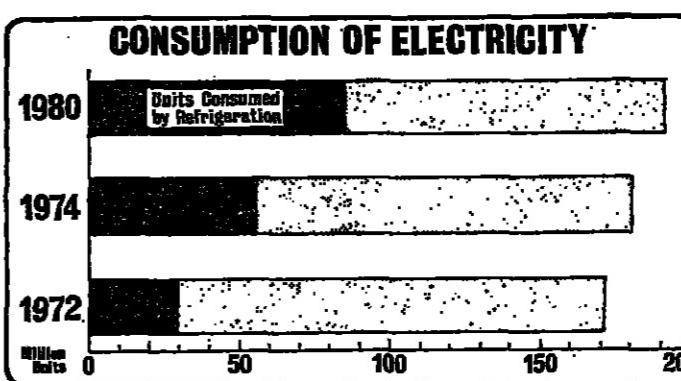
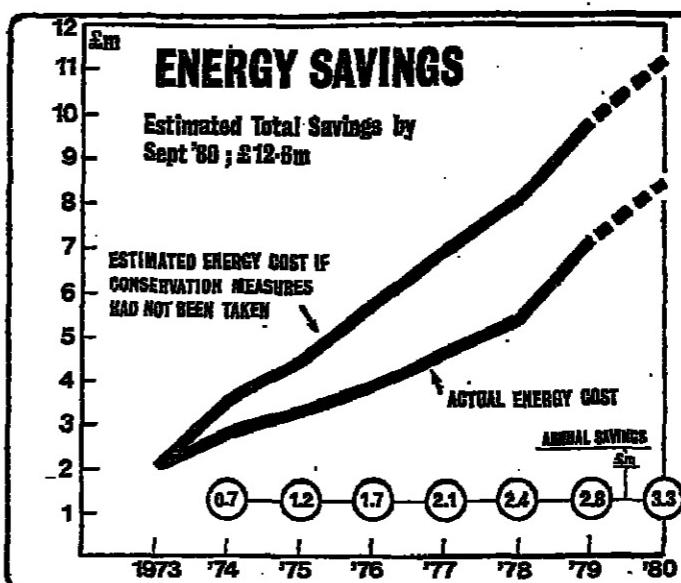
This meant that 30 per cent fewer tubes needed to be installed for a saving, in spite of higher unit costs, of more than £1,500 a year for every 1,000 original tubes used. All existing light fittings have now been converted to the new tube.

Further developments, giving additional efficiency, have been a smaller-diameter tube and a Mercury Halide light source. They will be increasingly employed throughout the group.

There is also a continuing programme to replace tungsten lighting used in stockrooms by more efficient fluorescent lighting.

After lighting costs, the next biggest consumer of energy was food refrigeration which, according to the energy audit of 1973, accounted for 29 per cent of the electricity bill.

Now, food refrigeration accounts for about 42 per cent of the electricity bill, but



- reaching a pre-set level.
- Installation of power factor correction equipment which adjusts fluctuating current to be in phase with the voltage supply.
- Installation of solar panels at seven stores to pre-heat domestic hot water.
- Installation of modular boilers to improve efficiency, especially when part loaded.
- Installation of lighter, more efficient light fittings.
- Improvement of switching arrangements, particularly in stockrooms, to enable local switching in working areas.

Marks and Spencer also exposes itself to ideas from external sources through study groups with major companies such as Pilkingtons, Thorn-Philips and ICI. Liaison meetings are also held with bodies such as the Department of Energy and the Multiple Shops Federation.

Additionally, the company passes on all conservation ideas to its manufacturers and suppliers and follows this up with personal visits to give specific advice.

Marks and Spencer describes all measures as "good house-keeping". For the future the company intends to continue devoting time, money and effort to the problem although it admits that proportional savings will be harder to achieve as time passes.

The key to continued savings will be vigilance, a sustained interest and commitment from all staff and more research and development, it adds.

The next stage will probably be the application of micro-processors to automate many of the energy saving measures that are now being handled manually.

However, Marks and Spencer is in no hurry to choose a system. For the moment it is evaluating various applications. "By using the wrong system we could end up using more energy than before," says Bernard Lubert, chief engineer. "This isn't to say we are discounting the use of micro-processors.

"They can be used to achieve the fine tuning to give further substantial reductions in consumption but we want to be sure that any system we eventually use will be worthwhile."

He points out that the most effective piece of micro-equipment is still the proper use of the human brain.

as this figure accommodates a sharp expansion in this part of the business the savings are less evident. Since 1973 there has been a linear footage increase of nearly 500 per cent in chilled and frozen food displays and storage throughout the group.

One of the first moves was to condense displays by switching off equipment when trading was slack in the early part of a week. Engineers then examined the chiller and freezer units for efficiency.

It was discovered that the two most popular units, one of which had been specially designed for Marks and Spencer, were operated from remote compressor units and were expensive to run.

A modification to the open topped chiller units to increase the height of the well by about three inches reduced the spillage of cold air. On the freezer side, the multi-tiered units were replaced by a new Slimline tub incorporating its own compres-

sor/condenser, which is less costly to install and run. It also retains cold air and can easily be fitted with night covers.

In addition the company has installed heat recovery systems from the piped refrigeration plants. This is used to pre-heat domestic hot water for stockroom areas. An installation at Winchester has shown an 80 per cent annual saving.

Elsewhere all thermostats controlling air-conditioning were reset from 20°C to 23°C and speeds of fans used to circulate air were reduced. All thermostats controlling heating have been set down from 20°C to 18°C and thermostatic valves have been fitted to all radiators.

Other technical measures include:

- Installation of cavity and roof insulation, double glazing on all new constructions.
- Installation of alarms which advise staff when demand is

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The case for new funding methods

BY ANATOLE KALETSKY

IF EVER there was a time for turning Britain's monetary system upside down, this must surely be it. Having ignored all warnings about the perverse effects of imposing a monetary theory made in America on institutions set up to serve quite different purposes in Britain, Ministers are now picking through the wreckage of their economic policy and looking for scapegoats at the Bank of England.

Keynesian

The idea that technicalities are at the root of the Government's economic failures does not inspire much respect among industrialists, bankers, trades unionists or organisers of local conservative associations. As "practical men" they believe that because Britain suffers glaringly from real economic problems, the solutions cannot be based on tinkering with purely monetary mechanisms. At one level, they are right, since the fundamental problems in Britain are low productivity, poor labour relations and bad management. But they are quite wrong when they address themselves to the failings of the monetary economy—which inflation is the preeminent example—and when they consider the role of government intervention in determining aggregate output.

The Government's policy has been based largely on monetary objectives—money supply and the value of public sector borrowing. But the intention was that all the necessary adjustments would take place in the real economy. Public borrowing was to be reduced by cutting government employment. Monetary targets were to be met by restraint in real wages. Now that these real adjustments have failed to materialise, the Government's policy is in limbo. The only options seem to be either to fudge the monetary plans or to operate on the one real economic lever which is firmly in the Government's hand by raising taxes.

There is, however, a much more palatable alternative. This is to cut the monetary value of Government borrowing and spending and to reduce interest rates "at a stroke" by telling

Negative

The answer may be that the PSBR is not excessive, but merely impossible to fund in a non-inflationary way within the constraints of the present financial system, which decimates the real economy.

When the Government attempts to reduce inflation, it risks pushing the real economy into recession, or raises taxes to achieve the same result by promoting lower interest rates, capital exports and a decline in the exchange rate?

THERE IS nothing more hazardous in the European wine world than predicting the outcome of the next vintage, and the professionals are always understandably cautious.

It is the like of politicians and journalists who rush in where vignerons fear to tread. But it is not, I must hasten to state, those who write regularly about wine that proclaim in advance the not infrequent vintages of the century; as did a Sunday newspaper's Paris correspondent before the fine but not great 1959 Bordeaux vintage, and the French Minister of Agriculture a month in advance of the very variable 1964 one.

This year, in mid-August, the distinguished Paris correspondent of another daily paper wrote off the 1980 French crop.

Four factors

In fact, no one really knows the results of a vintage until the grapes are fermenting in the vats. For there are at least four important factors that influence the result. The first is frost in late winter and, even more damaging, in spring. It was the late frosts in 1977 that ensured a small and probably not very good crop. This year there was no extensive damage, not even in Germany, always susceptible until mid-May.

The deepest objection, as Anthony Harris has pointed out, is that indexation would make it much easier for governments to run "excessive borrowing requirements, unchecked by the conservatism of the City's fund managers and stockbrokers."

This brings us to the most critical, and muddled, question in the economic debate: should the Government run a higher PSBR to stop the economy sliding further into recession, or raise taxes to achieve the same result by promoting lower interest rates, capital exports and a decline in the exchange rate?

The next hurdle is the flowering of the vine, which should begin as early as possible in June, and be over within a fortnight, with the fruit set. This year, owing to the late, dismal spring and early summer in northern Europe, the delayed flowering dragged on well into July, and the setting was poor.

Two results may ensue from this: coulure, when the flowers fall off without forming grapes; and millerandage, with the grapes so tiny that they never properly swell. Both occurred throughout the fine French wine districts, the former particularly with the Merlot grapes in the Gironde, entailing a small crop in St. Emilion and Pomerol where this variety is prevalent. In Alsace there will be no Muscat and only 5 per cent Gewurztraminer, the region's most sought-after-wine.

Champagne is reported as particularly badly affected, and it is even suggested that the crop will be smaller than the disastrous 1978, and with no reserves of still white wine to supplement it as there were then.

In Germany a small crop of Reisling is expected, affecting principally the Moselle and Rheingau where it predominates. Otherwise quality may be good, though the quantity will be small. But it is likely to be normal in Austria after a late spring.

The next critical period is in August, for the vineyard commonplace is "Aout fait le gout."

This year a fine August certainly improved the taste considerably, and hope was re-born at least in Bordeaux, but less so in Burgundy where the tertiolum, the colouring of the grapes, was the latest since the very poor 1954 vintage. Louis Latour in

Gondy and Beaujolais, and excellent wine was made.

On the other hand the poor summers of 1977, 1978 and 1979

were redeemed by long spells

of fine autumn weather. Indeed

1978 was saved by this and an

exceptionally small rainfall

from mid-August until the late

vintage in October. Will it happen again this year?

WINE

BY EDMUND PENNING-ROSELL

Bordeaux predicts no more than a half-crop, with whites excessively acid and reds on the coarse side. He suggests a vintage starting as late as October 15, but Roland Remoissenet, broker of the big Nicolas firm, thinks it might be delayed until the 20th. If so, will there be an Hospices de Beaune auction this November?

Bordeaux have not forgotten 1964 when after a fine summer, the heavens opened on October 8 and it rained for a fortnight.

Nevertheless in quantity the Gironde harvest may be reasonable, with 4m hectolitres, the same as in 1978. If the sweet wines are unlikely to be very successful, the dry whites could be perfectly sound.

Not all is gloom, however, even in France. The prospects in the Rhône are good, with plentiful quantity and at least

good if not great quality. A good vintage was the stability of prices when the market reopened after the holidays, whereas in Bordeaux they rose a little.

There could be acceptable Beaujolais Nouveau if the weather holds, but its release

might well be delayed. There have been no weather problems in the Midi, and a good crop is forecast. Indeed overall, France expects an average crop around 70 million hl.

In Italy there has been a hot summer in the northern and central vineyard areas though the ripening has been delayed, and a mid-October vintage is likely, but the steadiness of prices indicates there is no fear of a wine shortage. The huge vintage in 1979 precludes this in Italy and France outside Champagne.

South of the Pyrenees conditions are quite different. In Jerez the vintage began at the beginning of September, actually slightly earlier than last year, and the volume may well turn out much the same as last year's record 1.6m.

With grape prices only marginally higher, prices should not rise to any degree. In Rioja the vintage has just started, and a big crop is forecast.

If volume turns out sharply smaller than forecast, then prices may rise. This is most likely in Champagne. Otherwise last year's big crops and current decreased demand are big brakes on prices.

In quality it seems unlikely that 1980 can be as good as 1979, and those who have so far held off buying last year's vintage might well think again.

For there is no guarantee that 1981 will be any better.

Blending

Finally, how much does all this matter to us consumers? It does, of course, because the quality and still more the quantity of a vintage has a rapid effect all the way down the price line, and for the mass market quantity counts most, because lesser wines can be improved by blending.

If volume turns out sharply smaller than forecast, then prices may rise. This is most likely in Champagne. Otherwise last year's big crops and current decreased demand are big brakes on prices.

In quality it seems unlikely that 1980 can be as good as 1979, and those who have so far held off buying last year's vintage might well think again. For there is no guarantee that 1981 will be any better.

Liboi is expected to cut a dash

FOLLOWING FURTHER spells of heavy rain again yesterday in the South, Lingfield seems sure to be riding soft this afternoon. Backers will do well to concentrate on those who relish plenty of cut in the ground.

Two who fall into this category

RACING

BY DOMINIC WIGAN

are Liboi and Hunston. Although the Rosemary Loxam-trained Tom Roche horse Liboi is now an eight-year-old, he retains his form well and is quite capable of adding to his five successes on the flat, giving testing ground and a reasonable handicap mark. He has both on the Surrey course and appeals as the best outsider with win and place prospects.

In the Arundel Stakes Handicap another veteran, but one

favouring firm ground, Botanist,

may give him most to do. Last time out, Jim Old's course winner took advantage of a 10 lb concession from Hay Ride when beating that opponent and 10 others in a 1½-mile apprentices' handicap at Wolverhampton just under a fortnight ago.

Hunston, among runners for the seven-furlong Runners Stakes, gains a well-deserved firm success following two placed efforts when making all the running in the hands of Lester Piggott to land Sandown's Sha Tin Stakes on yielding ground over the same trip back in July.

Although she has not been seen out since taking that worthwhile prize through a three-length success over the subsequent Crathorne Stakes winner Star Pastures, the Newmarket two-year-old is thought to be better than ever. She is likely to prove too sharp for the once-raced Walham Green,

or the 1½-lengths conqueror of Ringal at Salisbury.

There were no defectors at the final declaration stage for the afternoon's most important event, the £4,000-added Upham Stakes, and Broomstickle Corner has a stiffer task than had been anticipated.

Nevertheless, she has made up into a smart middle-distance filly over the past couple of months and a reproduction of the form which saw her chancing home Shoot A Line in the Park Hill following three consequent victories will see her home.

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Prospects for the 1980 vintage

might well be delayed. There have been no weather problems in the Midi, and a good crop is forecast. Indeed overall, France expects an average crop around 70 million hl.

In Italy there has been a hot summer in the northern and central vineyard areas though the ripening has been delayed, and a mid-October vintage is likely, but the steadiness of prices indicates there is no fear of a wine shortage. The huge vintage in 1979 precludes this in Italy and France outside Champagne.

South of the Pyrenees conditions are quite different. In Jerez the vintage began at the beginning of September, actually slightly earlier than last year, and the volume may well turn out much the same as last year's record 1.6m.

With grape prices only marginally higher, prices should not rise to any degree. In Rioja the vintage has just started, and a big crop is forecast.

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ENTERTAINMENT GUIDE

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Tuesday September 23 1980

Iraq's fight with Iran

WHEN Middle Eastern conflicts spill over into open fighting, it is inevitable that they will be of prime concern to both Western and Eastern powers, the more so when major oil producers are involved. The outbreak of fighting between Iraq and Iran — it is too soon to characterize it as all-out warfare — is no exception. But there is one critical difference from other Middle East wars in that neither the U.S. nor the Soviet Union can claim either country as a client state.

This has both its drawbacks and its advantages. The immediate danger is that should Moscow or Washington so wish, they are almost certainly not in an immediate position to insist on restraint, as the U.S. could perhaps have done with Israel in 1973, and the Soviet Union with Syria and to a lesser degree Egypt.

Rival sects

The current fighting is between two Moslem States and, as important, between regimes which are controlled by rival sects — the Sunnis Moslems in Baghdad and the Shiites in Tehran. The two-year crisis in the Islamic world has as one of its main characteristics a desire to end super-power influence. The Iranian revolution has been largely fuelled by loathing of Western influence and values.

Iraq has sought to diminish its dependence on the Soviet Union while perhaps subtly improving its relations with other parts of the world, especially Western Europe. The reasons are complex but ultimately linked to the power vacuum created in the Gulf by the ejection of Egypt from the mainstream Arab politics, the deposition of the Shah, the unwillingness of Saudi Arabia to adopt a more forceful role — and just over the horizon the Soviet Union's invasion of Afghanistan.

As ever in the Middle East it is difficult immediately to assess objectives. Military aims are necessarily tightly circumscribed by the availability of armaments. If President Saddam Hussein of Iraq intends only a limited border war with Iran, he probably calculates

Restraint

The Soviet Union and the U.S. may not immediately have the ability to stop the fighting but they do have the potential through denying weapons and supplies to limit its extent and duration. Without that restraint Iran will be driven further down the road towards the complete break up of the State as it is known today. Such collapse would add a further totally unpredictable factor to the instability of the region and which the industrialised world depends.

Adjustment in steel

TODAY'S MEETING between Mr. Ian MacGregor, chairman of British Steel Corporation, and Sir Keith Joseph, Secretary for Industry, comes at a time when the commercial prospects facing BSC and the European steel industry as a whole are worsening. Steel demand within Europe is falling, while traditional export markets, notably in the U.S., have become much more difficult to penetrate. Despite the cutbacks which have taken place in most of the producing countries, there is still a considerable surplus of capacity. The inevitable result is a bout of price-cutting which is threatening to undermine the European Commission's efforts to preserve stability in the market. Like the BSC, most of the leading Continental steelmakers are making large losses; they are under pressure to accelerate redundancies and plant closures.

Transitional

In these circumstances both national governments and the Commission are faced with difficult political and economic dilemmas. EEC governments have taken the view that their steel industries, though certain to contract in size, should not be totally abandoned. Taxpayers' money is being used, even in West Germany, to ease the pain of adjustment and to assist with modernisation. The assumption is that a substantial basic steel industry, supplying the bulk of the domestic market, can be made viable. The danger, of course, is that transitional assistance will become permanent. It may have the effect of maintaining capacity which, without State intervention, would disappear and delay the return to equilibrium in the market. That is the complaint which German steelmakers have been making about some of their competitors.

The Commission has been seeking to maintain an orderly market through controls on imports and a system of recommended prices and production levels to give the steelmakers time in which to put their houses in order. At the same time, it has tried to discourage additions to capacity and to prevent unnecessary duplication of new investment. These policies have been only partially successful. Pricing discipline now seems to be breaking down under the impact of the recession. There is again talk of the Commission having to resort to Article 58 of the Treaty of Paris, declaring a "manifest

crisis" which would involve the imposition of mandatory production ceilings.

The U.K. cannot be accused of contributing to these problems by failing to reduce capacity; the cutbacks effected over the past two years have been drastic. Yet visibility for British Steel is as far away as ever and capacity is still well above current demand. Whatever happens at the European level, the British Government has to decide how large a steel industry is likely to be profitable when demand recovers, how soon profitability can be achieved and what support from the taxpayer (if any) is appropriate in the meantime. To make firm plans on the basis of a permanently depressed home market may be as unrealistic as the overambitious investment programme launched in the early 1970s.

Given the uncertainties about the BSC's plans need to be flexible. Some new investment is necessary to improve quality and productivity in half-modernised plants. Decentralisation must be pushed ahead and where possible extended to the creation of separate companies. Success in the steel business is likely to go, not to slow-moving State-owned colossi, but to companies which have low overheads and are nimble enough to respond to market opportunities; it is possible that some of the plants which are surplus to the BSC's requirements, such as Consett, could be made viable under private ownership, although the costs and risks of any such venture would be considerable.

Pressures

A solution to the BSC's problems will not be found in Brussels. The UK may complain about the flouting of the Davignon guidelines by some Continental producers, but the nature of the market and the structure of the industry are such that strict discipline will always be hard to enforce. The most important role for the Commission is to keep a close watch over State aids to the steel companies and to ensure that the public funds which are made available are used for adjustment and not for propping up uneconomic capacity. Governments are justified in helping companies adjust to the pressures of the market. But unless those pressures are allowed to work, the crisis in the industry will continue indefinitely.

WAR IN the Gulf, reports of bombing of oil installations, attacks on neutral shipping: these have been growing nightmares for the industrial world ever since it began to be dependent for energy supplies on this thinly populated, unstable and steaming part of the world.

Now, with about two-thirds of the world's oil imports originating in the Gulf and a hundred big tankers passing each day through the Strait of Hormuz at its mouth, the nightmare appears closer to becoming a reality.

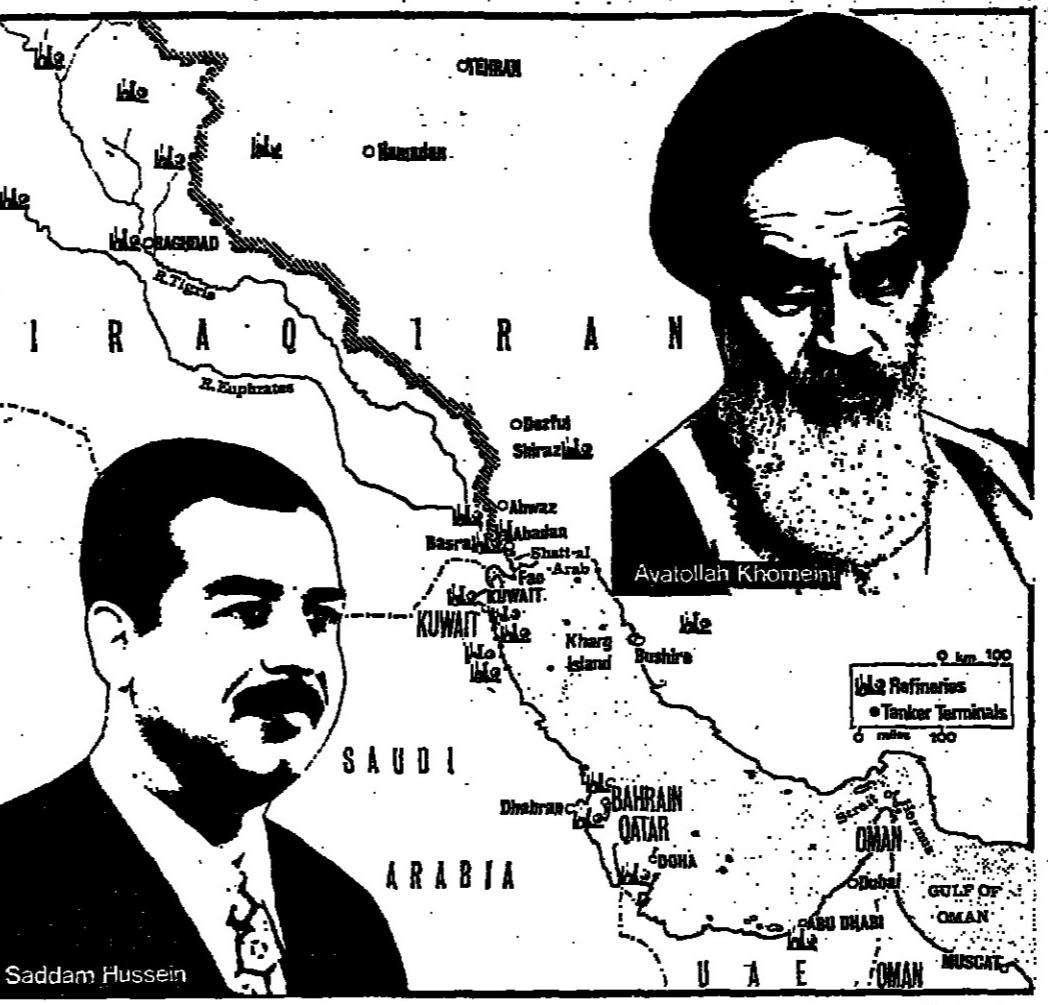
Until the beginning of this year—and the growing tension between Iran and Iraq—the Gulf had, with certain exceptions, appeared peaceful. When Lloyds of London imposed a war risk surcharge on Gulf voyages in summer, 1979 the most virulent protests came from Iraq, which claimed that the action was an affront to Arab nationalism and was based on alarmist reports and rumours.

In fact the Gulf was a power vacuum from December 2, 1971 onwards, the day on which Britain finally pulled out of the Gulf. The British had treaties with the smaller Gulf states—Kuwait, Bahrain, Qatar and the sheikdoms which are now the United Arab Emirates—and maintained a small military and naval presence which acted as a deterrent against conflict and military adventurism. Britain sent troops to Kuwait when it was threatened by Iraq in June, 1961.

In practice Iran, with its ambitious Shah, took over the role of dominant military power in the region. How powerful the Shah's forces would actually have proved in battle will never be known, but in any case Iran's military power crumbled after the autumn of 1978, and with it the western policy of leaving Gulf security largely in the hands of the Shah.

What the West has always feared is any threat to the security of oil supplies, caused

JAMES BUXTON traces the origins of the new threat to oil supplies and (below) ROGER MATTHEWS weighs up the two sides to the conflict.



by one or more producer ceasing exports (as Iran has virtually done), by damage to shipping or by the blocking of the Strait of Hormuz. There are two possible causes of threats to oil supplies: internal revolt in the oil states or war between two

or more of them, possibly with outside powers becoming involved too.

Relatively little has been done to guard against either threat by the oil states, who have made the oil states the guardians of their own security. Following

the Iranian upheaval, there has been far more co-operation between individual Arab states on means of "limiting the spread of revolution". Many Arab states, including both Saudi Arabia and Iraq, pledged support to Bahrain, some of whose

Baghdad's strong man plays a risky game

WHEN Mr. Saddam Hussein took over the Presidency of Iraq last year he may have been unclear in his own mind when he would move against the Iranians. However Ayatollah Khomeini probably did much to make up his mind with his blatant public attempt to export his Shiite Moslem revolution across the border.

The Iraqi ruling group is almost totally Sunni Moslem. It does not claim any strongly religious basis, but it is totally opposed to any attempt to stir up its own 50 per cent Shia population.

The extent of the past week's fighting is almost certainly an indication of how deeply the Iraqis feel the threat. President Saddam Hussein's regime has not been noted for the gentleness with which it handles opponents and Amnesty International, the British-based human rights organisation, has reported that political deaths in Iraq have averaged 100 a year for the past five years. Some 20 members of the regime were

executed last summer for alleged plotting against Mr. Saddam Hussein, soon after he took over the Presidency.

Mr. Tariq Aziz, a deputy premier and one of the President's most trusted aides, narrowly escaped assassination allegedly at the hands of Iranians a few months ago, and there have been persistent reports of other subversive activity in Baghdad.

All Middle Eastern leaders have their long-term aspirations and Mr. Saddam Hussein is no exception. But in common with other Arab leaders he is most strongly motivated when he sees an external or internal threat to his regime.

When Vice-President of Iraq in 1975, and the government's "strong man," he was virtually forced into signing an agreement with the late Shah of Iran which surrendered part of Iraqi control over the vital Shatt al-Arab waterway. In return the Shah abandoned his support for the dissident Kurds who were causing such trouble for Baghdad.

The collapse of the Kurds was at that time more than sufficient recompense for Saddam Hussein. The immediate threat to the security of his Ba'athist regime was removed and the "strain on Iraqi pride" caused by the loss of control over Shatt al-Arab could safely be left for the future.

Now the threat is from Iran itself. The Iraqi president is reliably reported to loathe the Ayatollah and the importance of personal antagonisms in the Middle East should not be underestimated. The Baghdad regime may well have calculated that if it is to be a struggle to the death between the two governments he who strikes first and hardest is most likely to win.

When action is taken for this reason other policy objectives tend to take second place, even when it appears that long term damage may be done to those aims. Thus Mr. Saddam Hussein is willing to risk a great deal in order to secure his own domestic position.

Iraq has already greatly improved its position in the Gulf region with the collapse of the Shah's regime and through President Anwar Sadat's peace treaty with Israel. On the one hand the Iranian revolution sent shock waves through the mainly conservative Gulf states, notably Saudi Arabia, and on the other the departure of Egypt from its arguable position as Arab leader left a vacuum that needed to be filled.

Despite the revolutionary Arab socialism of the Ba'athist regime in Baghdad, Iraq found that Saudi Arabia's nervousness over events in Iran could provide the basis for a closer relationship. Its substantial oil wealth also meant that it was in a strong position to influence such relatively poor countries as Jordan which also might eventually provide another important outlet to the sea. Shatt al-Arab is currently Iraq's only sea border.

Oil wealth meant also that Iraq could put some distance between itself and the Soviet Union

while espousing the goal of Arab nationalism and unity on its own terms. In line with this policy Iraq turned increasingly to Western Europe for arms while its revolutionary socialism has not presented some commercial dealings with the publicly despised United States.

The risks that Mr. Saddam Hussein is running are substantial. It is still too early to guess whether he is working to a pre-ordained plan or whether events are carrying him beyond his initially stated objectives which were the "liberation" of some 200 square miles of border territory.

But should the Iraqi leader now be tempted to go for what some observers believe to be the second stage—that is the seizure of the three Iranian-controlled but disputed islands at the mouth of the Gulf, the conflict and its repercussions could escalate more dangerously.

Although Mr. Saddam Hussein may be confident that he has some degree of

military superiority, his three services are scarcely battle-hardened and there must be speculation about the future for military discipline when Shi'ite troops are called to fire on other Shi'ites, especially in any longer campaign.

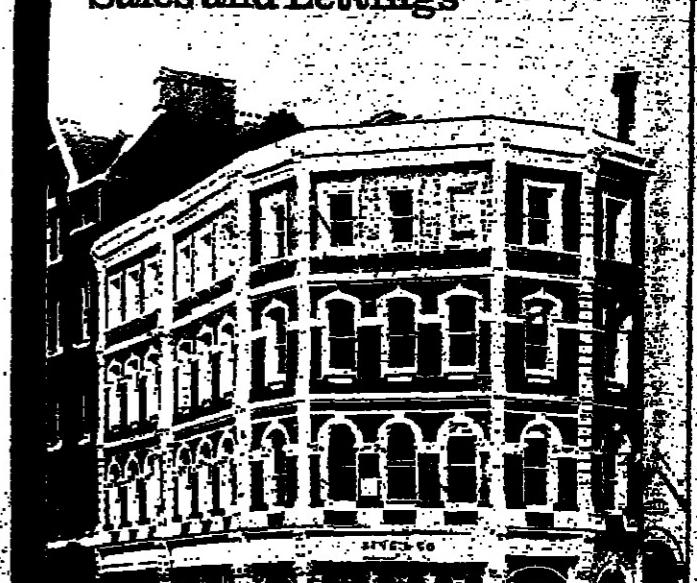
Iraq is, moreover, a landlocked country, with the exception of Shatt al-Arab, and cannot be sure that the Syrians, with whom they are at loggerheads would not cut off the oil pipelines to the Mediterranean coast.

And there is certainly no way that Mr. Saddam Hussein can guarantee that even the depleted and relatively poorly disciplined Iranian forces cannot deal telling blows at his own oil installations.

If the fighting can be contained—or if the Iranians lose heart and do not put up much of a struggle—Iraq and its President could emerge with increased influence in the Gulf. Certainly they will be more greatly feared.

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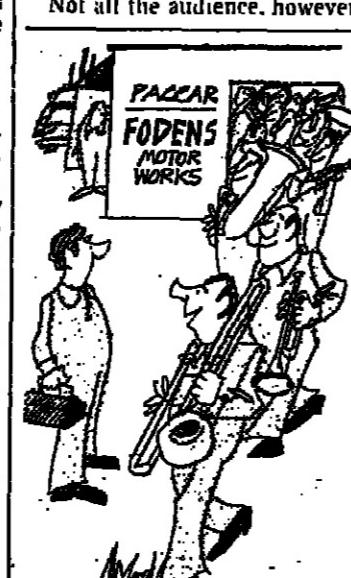
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"We've been given time off to learn God Bless America"

Plugging in

Flying less flamboyant colours and seeking help rather than doling out pearls of States-side wisdom, comes William McCollum Jr, president of the Edison Electric Institute, the association representing the U.S. electricity supply business.

Three-quarters privately owned and once rating blue-chip status, his industry is in trouble, he tells me. Suffering under a "tyranny of minorities," he says power has been offering only 11 per cent return on common equity in the last couple of years when it has needed to make 14 to 15 per cent to compete in capital markets.

At the root of his difficulties are the groups which seek to proscribe nuclear energy, hobbles coal with anti-pollution controls and at the same time keep electricity prices so low that the industry cannot afford to build new plant of any kind.

"I'm struck by the similarity of our problems," he tells me. He believes we can certainly teach the U.S. something about

Hickman's litigious experience illustrates just one of the many obstacles that stand in the way of the British inventive renaissance sought by Margaret Thatcher and Prince Charles as a solution to our troubles.

Hickman's career provides more examples. He got the idea for the Workmate in 1961 while doing-it-himself and sawing a chunk off the chair he used as a work bench.

He left Lotus six years later to develop his notion which was promptly rejected by half a dozen British companies, Black and Decker, and four other U.S. concerns. Hickman went into partnership himself for four years before B and D returned to form the present profitable alliance. Now exiled in Jersey—

First things first

Heard from a mother collecting her child from the infants' school: "The only thing my Tony's learned in his first week is that the other kids get more pocket money."

Observer

FINANCIAL TIMES SURVEY

Tuesday, September 23 1980

Australia

Australia in the 'eighties could become the El Dorado of the Southern Pacific. But the successful harnessing of mineral wealth to abundant energy poses problems of institutional change and a challenge to the country's political will.

Key decisions await the outcome of elections next month.

Difficult decisions must be made

By Anthony Robinson

"AUSTRALIA, were it bold and determined enough, could face a brilliant future. But it is more likely to be satisfied with mediocrity than aspire to excellence. Even so, it will still remain a marvellous place to live for most Australians—and the envy of many people elsewhere."

This somewhat cynical assessment by a Sydney investment adviser with access to the ear of politicians, as well as the financial community, sums up much of the perplexity with which many thinking Australians are facing a decade which promises great prosperity, but also many complex problems of adjustment.

It also reflects the scepticism born of the rather depressing experience of the past five years during which the standard of living of most Australians has stagnated. This is the time it took to eliminate the wage/productivity overhang bequeathed

by the Labor Government of the early 1970s which, for all their exhilarating slaughter of sacred cows and social experimentation, managed to leave the economy very badly indeed. These have been rather frustrating years of marking time. If this was the end result of the much-heralded minerals boom of the 1960s, many Australians are asking themselves, why get excited about the much-heralded 1980s boom? It too could end with a whimper.

The fact is, however, that a minerals/energy boom, spearheaded by coal, uranium and aluminium, is now clearly getting under way. The size of the boom—and its eventual benefits to the rest of the economy—will depend on decisions which still have to be taken.

Other countries also have rich mineral deposits to be exploited. Construction costs in the Australian outback and technology has also developed. In some sectors of the community at least.

Increasingly, Australia has become a multi-ethnic society and the vices and virtues of the former white Anglo-Saxon dominated Australia of the past have been subtly changed by the influx of other European and increasingly Asian immigrants. More than 70,000 refugees from Vietnam were accepted into Australia last year alone.

At the same time, however, life has been increasingly difficult for a growing sector of Australian society during the past five years. The hardest hit have been the weakest elements in society. Unemployment stands

at just under 6 per cent of the labour force—and many thousands more have simply dropped out of the labour market—and the official statistics.

Unemployment has hit hardest at the young, women, immigrants and the unskilled. It has been exacerbated by continuing inflation and technological change which threatens to run even faster in the decade ahead.

Social attitudes to unemployment have also changed with the Government encouraging the idea that many of the unemployed are simply "dole bludgers". Crime, alcoholism, drug addiction and violence have been rising. Organised crime has infiltrated local politics and even part of the banking system.

Australian society has become more complex, less egalitarian and, in some ways, less sure of itself. Even for those, the great majority, who enjoy full employment, average real incomes are only starting to rise appreciably now after five years stagnation.

There is little doubt that Australia, given its resources and potential could and should have done much better.

The die has not yet been cast over the course of the 1980s. A general election in the house of representatives and elections for renewal of half the Senate take place this autumn. The Liberal/Country Party coalition headed by the Prime Minister, Mr. Malcolm Fraser is expected to campaign as the party of economic responsibility at home and security abroad.

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Labor stands as the party of compassion and fair dinkum. Attempts will undoubtedly be made to portray Labor as the party which bungled the last boom and is not to be trusted with the next. The coalition on the other hand will claim to possess the confidence of investors overseas and business and farmers at home, to be the party of lower taxes, balanced budgets and smaller government.

Separating myth from reality is always difficult and especially so at election time. But there



which swept the Whitlam Government to power on a wave of popular enthusiasm in 1972.

People's choice

The race here, of course, is that faced with a choice between Tweedle-dum and Tweedle-dee, the electorate will stick with the present Government which, in spite of all the rhetoric about small Government and so on, has kept Government spending at a high level and is committed to heavier spending on defence, health and social welfare.

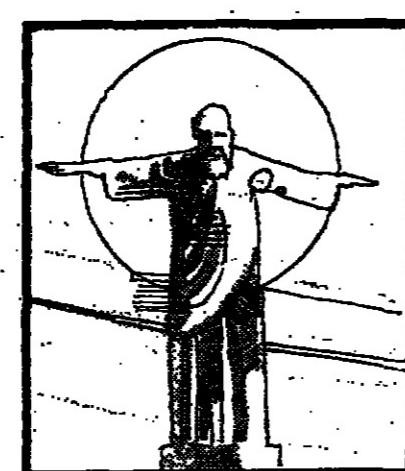
What is highly questionable, however, is whether the ensuing election campaign will address itself to the real choices facing Australia during the next decade, and the difficult choices which will have to be made if the huge potential opportunities of this decade are to be fully grasped.

Reduced tariffs, so this argument goes, will reduce inflationary pressures and lower input costs to the most efficient areas of the economy which will then be able to expand.

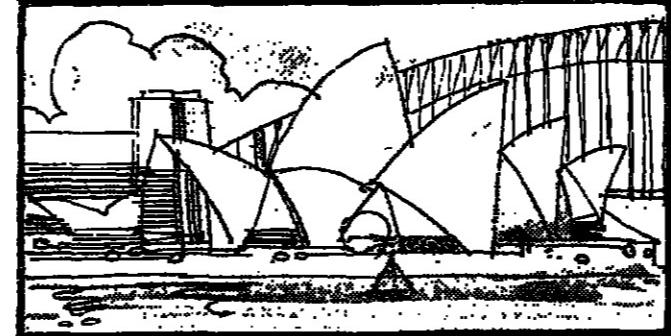
The mineral/energy boom itself will provide several thousand new jobs directly and many more through the multiplier effect. A recent survey in West Australia for example showed that 90 per cent of equipment used in the mining industry there was locally pro-

CONTINUED ON NEXT PAGE

TNT spoken here.



and Here —



and Here —



and Here —



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AUSTRALIA II

ECONOMY (I): THE OVERVIEW

Minerals and energy point way to a decade of growth

AFTER FIVE painful and frustrating years of low economic growth and struggle against inflation, Australia is now gearing up for what could be a decade or more of mineral/energy development-led growth. But the Government's relative failure to match its rhetoric with decisive action in the field of lower Government spending and structural change means that some bold and controversial decisions will be required after the elections if the full potential is to be realised.

The most difficult decisions are pending in the field of tariffs and quotas. These will have to be substantially cut over a relatively short period according to a confidential report prepared by the Treasury, the Reserve Bank and Industry which was leaked to the Labor party and subsequently tabled in Parliament by the Treasurer, Mr. John Howard, last month.

Significant reforms in Australia's hidebound financial institutions will also be required in order to encourage higher Australian investment in its own mineral / energy development, according to the interim report of the Campbell Committee set up to investigate the working of the financial system.

Further changes will also be required in the highly charged area of labour relations and incomes policy if growing inflationary pressures and looming skilled worker bottlenecks are to be avoided.

With unemployment still around 6 per cent, despite the creation of some 220,000 new jobs last year, plans are now afoot to step up the immigration of skilled tradesmen. But these will face union resistance unless greater effort is made to step up the number of domestic apprenticeships and worker training programmes.

One of the fears most commonly expressed by industrialists and Government economists alike is that the increased demand for skilled construction and metal workers in mining and infrastructure projects will lead to rapid increases in their wage rates. This will then be transmitted throughout the system, failing reform of the present method of centralised wage bargaining as institutionalised through the Arbitration Commission. This sets minimum wages nationally on a bi-annual basis and is believed to have been a major factor in a marked flattening of wage

differentials which has had a disincentive effect on skilled workers.

The likelihood of skilled labour bottlenecks was singled out in the latest OECD report on Australia as one of the most likely constraints. A recent report by the Australian Industries Development Association also warned against the facile assumption that Australia would be able to cope easily with development on the scale now being talked about.

Airy talk

Some semi-official estimates of the scale of the investment boom ahead talk airily in terms of \$80bn over the decade. The latest official estimates put out by the Department of Industry and Commerce in June put the total of projects under way or at an advanced stage of planning at \$29bn.

Even this latter figure, however, is considered totally unrealistic by mining industry economists in particular. They point to the 10 years needed to get the present coal mines into full operation and believe that considerable discipline and selection of projects will be

required if excessive bunching of projects is to be avoided.

The pre-conditions for a resumption of minerals and energy led growth exist primarily in the vast and cheap coal resources of Queensland, New South Wales and to a lesser extent South Australia, plus gas off the North West shelf, domestic oil and uranium.

Higher world energy prices, coupled with Australia's abundant energy and bauxite supplies, have ensured that the heart of the 1980's resources boom will be the rapid expansion of aluminium smelting and the further processing and refining of Australia's other mineral resources.

Some 18 large coal-fired electricity power stations and five aluminium smelters and associated infrastructure are already either under construction or an advanced stage of planning.

Elsewhere, massive investment is earmarked for development of the Rundale oil shale deposits in Queensland and the rich multi-ore body discovered at Roxby Downs and Olympic Dam in South Australia.

Heavy exploration investment by Australian and multinational mining companies con-

tinues to discover new and potentially commercial mineral deposits. These serve to underline the vast potential for future development way into the 21st century.

As if that were not enough, high world prices for Australia's principal agricultural exports—wool, grain, sugar and beef—are set to ensure another good year for what is still Australia's major export sector.

This is the overall, broad-brush picture of Australia which has sent stockbrokers around the world reaching for their superlatives and persuaded investment fund managers to re-adjust their portfolios to include a rising proportion of Australian resource and energy based stocks.

Their confidence reflects the OECD's own favourable long-term assessment of Australia's future position as one of the world's major net energy exporters.

But the pace of development and, above all, the degree of benefit to the economy as a whole, will depend on the outcome of choices and decisions which have yet to be squarely faced. One of the clearest analyses of the policy dilemmas posed by the forthcoming boom was made last year by the Treasury Secretary, Mr. John Stone.

He started from the assumption that Australia would require substantial foreign capital inflows to assist in development which in turn implied a matching current account deficit.

In physical terms, this means that Australia will be obliged to import more as its exports of minerals rise. The challenge facing Australia according to

Mr. Stone is to ensure that Australia becomes as successful in importing as it is

designed to become in exporting.

On this view, the best way of maximising the benefit from Australia's situation would be selectively to reduce protection on the least competitive Australian industries. These happen to be the politically sensitive, labour-intensive textile, shoe, automobile and other consumer industries.

If not, it risks becoming irrelevant to its Asian partners — as Singapore's Prime Minister, Mr. Lee Kuan Yew, angrily told Mr. Fraser after this month's Commonwealth regional conference — and the object of increasing pressures from its other trading partners too.

AUSTRALIA III

General election next month

AUSTRALIA is heading for a general election on October 18 without much apparent enthusiasm for either of the two major political parties which, in turn, are offering little to inspire the country.

The Liberal-National Country Party coalition, headed by the Prime Minister, Mr. Malcolm Fraser, is claiming credit for having gradually weaned the country back to economic solvency.

Backed up by warnings from the OECD and other august bodies, that a repeat performance of the 1974 wage/price explosion would undo all the sacrifices of the last five years, the Government is portraying itself as the champion of financial stringency and low inflation at home and a vigilant guard against Communist expansionism abroad.

The conventional wisdom in the Canberra political hothouse, big-city board-rooms and even trade union headquarters, is that the odds still favour the return of another Liberal-National Country Party coalition government for the next three years, albeit with a reduced majority and, possibly, with a brittle or deadlocked Senate.

Half the Senate seats come up for re-election this time and any swing to Labor, or the Democratic Party of Senator Don Chipp, is likely on past performance to be more marked in the distribution of Senate preferences. Mr. Fraser is credited with having provoked Senators by his insensitive handling of several recent Senate appointments and the apparent downgrading of the second chamber.

Strong record

As Prime Minister, Mr. Malcolm Fraser's strongest asset is his proven election-winning record. He trounced Labor at the polls in December 1975 to win a record 55 seats and he repeated the performance with an early election in December 1977, when he was returned with a 45-seat majority in the 124-seat Chamber of Representatives.

After his second defeat in a row, the formerly charismatic Labor leader, Mr. Gough Whitlam, resigned. The leadership of the dispirited Labor rump in Parliament and the country, fell to Mr. Bill Hayden, an ex-politician and economist from Queensland.

Decent, approachable and compassionate are some of the adjectives used to describe Mr. Hayden, whose personality stands in marked contrast to the angular, aloof and rasping style of Mr. Fraser—a man who knows the political jugular where he sees it.

One of Mr. Fraser's closest colleagues in the Senate insists, however, that what passes for Mr. Fraser's arrogance is actually shyness and that, should Mr. Fraser be returned to power at this election, he could well mellow into a Menzies-type leader, capable of creating the sort of consensus which Australia enjoyed through what is now seen in

A SHARP increase in both consumption and investment expenditure, in recent months, indicates that the Australian economy may now be expanding at a faster rate than the 3.5 per cent growth on which the mid-August federal budget based. Its estimates.

At the same time, a spate of higher profits is being reported, particularly by the major mining companies, and stock markets are booming on the strength of rising domestic and foreign demand, particularly for resource-based stocks.

The latest figures issued by the Bureau of Statistics indicate that new fixed capital expenditure is expected to rise by 21.5 per cent over the second half of the year.

The rise is concentrated in the mining sector—where investment is expected to be 60 per cent above first half levels, in manufacturing investment (including the massive smelter projects) and in construction.

In real terms, private fixed investment this year is expected to rise 10 per cent over 1979 levels while the latest retail sales statistics indicate a 4 per cent increase in consumer spending this year.

Hourly earnings meanwhile rose by 10.9 per cent over the year to end-June, only slightly faster than the consumer price index which rose to 17 per cent over the same period.

As the economy picks up, however, pressure for higher wages and salaries is expected. This could make it difficult to keep average weekly earnings to the 12 per cent rise forecast in the budget papers for the current fiscal year.

Higher private investment and consumption, meanwhile,

retrospect, as the relatively untroubled and confident fifties and sixties.

There is little sign of this at present, however.

Labor has recently been heartened by opinion polls, commissioned, it should be said, by the Labor Party itself, which show that while Mr. Fraser scores high on leadership compared with the self-stating Mr. Hayden, the Labor leader is well ahead, in terms of his closeness to the people, political credibility, moderation and TV showmanship. He even scores marginally better on economic management—an important point on an election which is expected to be fought largely on economic issues.

Labor, furthermore, intends to fight this election with a leadership team comprising Mr. Hayden, flanked by Mr. Bob Hawke, the flamboyant former president of the Australian Council of Trades Unions (ACTU) and Mr. Neville Wran, the new president of the Party. As Labor Premier of the country's most populous State, New South Wales, Mr. Wran has earned a reputation for sound economic management and fiscal caution.

The three musketeers, as they were recently portrayed in the Press, intend to lead their campaign with an attack on the Liberal Party's "broken election promises."

These issues range from the dismantlement of the Medicare health security scheme to unfilled pledges to cut income taxes, fully index wages and drastically reduce inflation.

Labor claims that far from being the party of low taxes, low spending and a lower government profile, the Liberals have actually proved to be both high taxers and big spenders.

Echoes of such criticism can also be heard in many a board room where the Government, although it is preferred by business circles, is felt to have been long on the rhetoric of smaller government, but short on substance.

It has not been bold enough, either to cut Government expenditure (of which over 60 per cent is in any case committed to the states or index-linked to inflation), or tariffs in any meaningful way. Failing this, progress in cutting inflation has been slow, while economic activity has been generally sluggish. This has led to growing unemployment and slow progress in the vital area of infrastructure development and, above all, the shift of industry away from the inefficient, tariff-protected structure inherited from the past.

With an election looming, Mr. Fraser recently refused to accept the advice of a Royal Commission and reduce protection on textiles and shoes.

Whichever wins the next election, however, will face the problem and reap the opportunities offered by what looks like becoming a major minerals and energy development boom throughout the decade.

The projected mining boom looks like creating a series of

major political dilemmas and is far from being the unalloyed opportunity which it appears to many outside Australia.

Many Australians appear to have become deeply sceptical about the likely benefits they will receive from such development. One of the most important decisions made by the Fraser Government was that of introducing world parity pricing for domestically produced oil which covers nearly 70 per cent of the nation's requirements.

The Government argues strongly that this is vital if energy is to be used efficiently and to develop alternative energy sources, such as the Rundle Shale oil project. But what strikes the average Australian voter, commuting many miles each day from the far flung suburbs, is the effect on his standard of living of what is, in effect, a large increase in indirect taxation. This hits all consumers, irrespective of their income and capacity to pay. Higher taxation, less than full inflation indexing of wages and slow growth have kept average living standards virtually stagnant for nearly five years.

Now the signs of pressure for higher wages are growing and threaten to spiral rapidly if, as expected, the projected minerals boom causes severe

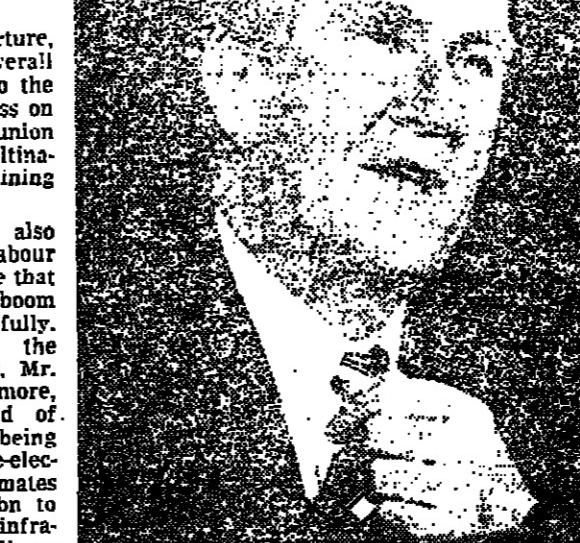
bottlenecks in the supply of skilled labour. The Labor Party leadership argues that this can only be headed off by policies aimed at bringing the unions more closely into the economic decision-making process, and ensuring that the expected mineral wealth is seen to be filtering back through to the community.

Party's aim

Labor's recipe for all this is centred on the institution of the so-called resources rent tax, or "super profits tax," which, in its first instance, would substitute for the present oil levy and subsequently be introduced into other areas. The party is also planning the creation of a State Hydrocarbons Corporation modelled on the lines of BNOC or Norway's Statoil.

All this is, of course, anathema to the Liberals who point to the negative impression this will have on foreign investors who are currently fuelling a strong bull market on the stock exchanges and preparing to invest billions in energy and mineral related projects. The Labor view is that Australia's combination of cheap coal and abundant bauxite is unmatched elsewhere.

But it is concerned that competition between the states to attract foreign investment by offering low electricity prices,



The Prime Minister, Mr. Malcolm Fraser



The Labor leader Mr. Bill Hayden

Both are being used to point out the dangers implicit in what

Labor spokesmen describe as "the confrontational tactics" of the Liberals and their "broken promises."

A lower rate of development, more carefully regulated and, taking place in a climate of Labor co-operation, would be in the best interests of Australia and foreign investors alike, they argue.

The question of Labor co-operation, and the equally important need to ensure Aboriginal consent for mining projects, has been raised to the forefront of national and foreign attention by two major disputes in recent weeks.

Sir Charles Court, to ensure oil drilling at Noonkanbah, in an area considered to be an Aboriginal sacred site.

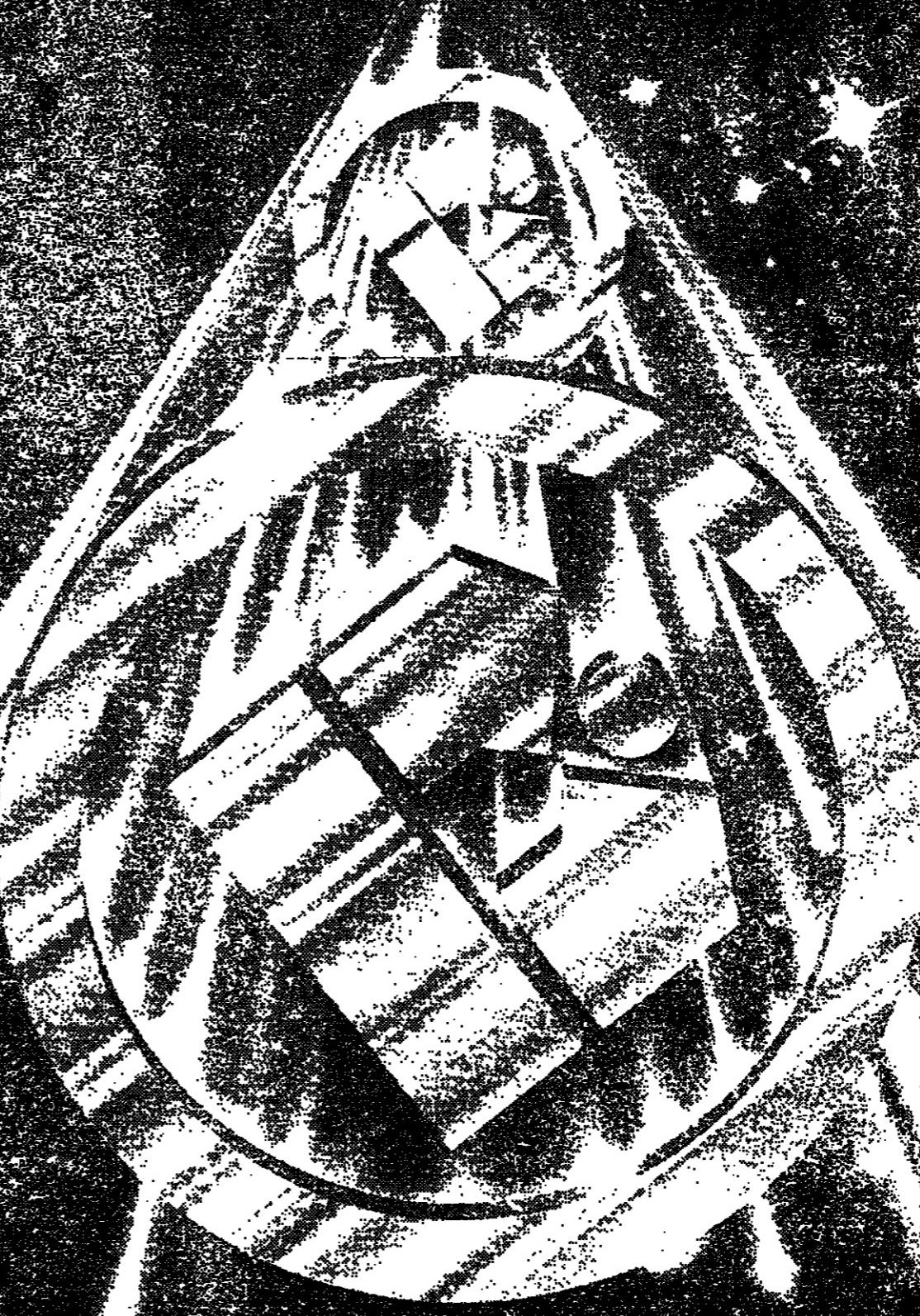
Both incidents highlighted the sort of problems which have helped to ensure that Australia, in recent years, has not been able fully to capitalise on its enormous natural advantages. Creating a workable consensus about what Australia can and should achieve over the coming decade will not be an easy task. Considerable sensitivity will be required to solve the social

problems created by unemployment, the need to allow greater immigration of skilled workers, re-structure the economy and provide for the enormous construction and infrastructure development which is planned.

This is really what the forthcoming election is all about, although whether the debate rises above the level of mutual recrimination and mud-slinging, typical of electioneering, remains to be seen.

Anthony Robinson

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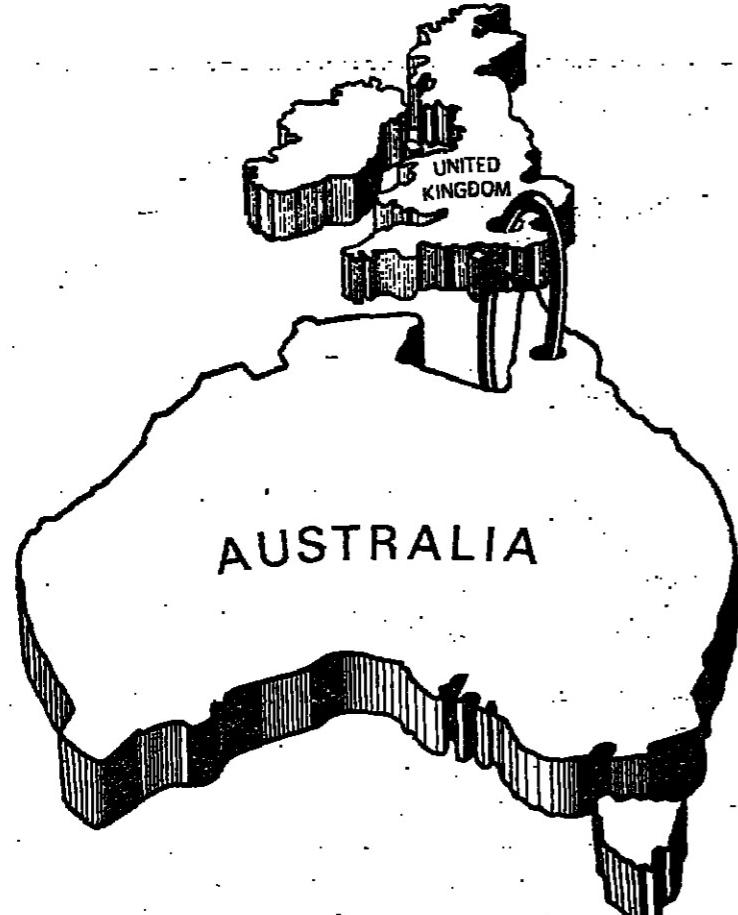
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AUSTRALIA IV

Argument over tariff issues



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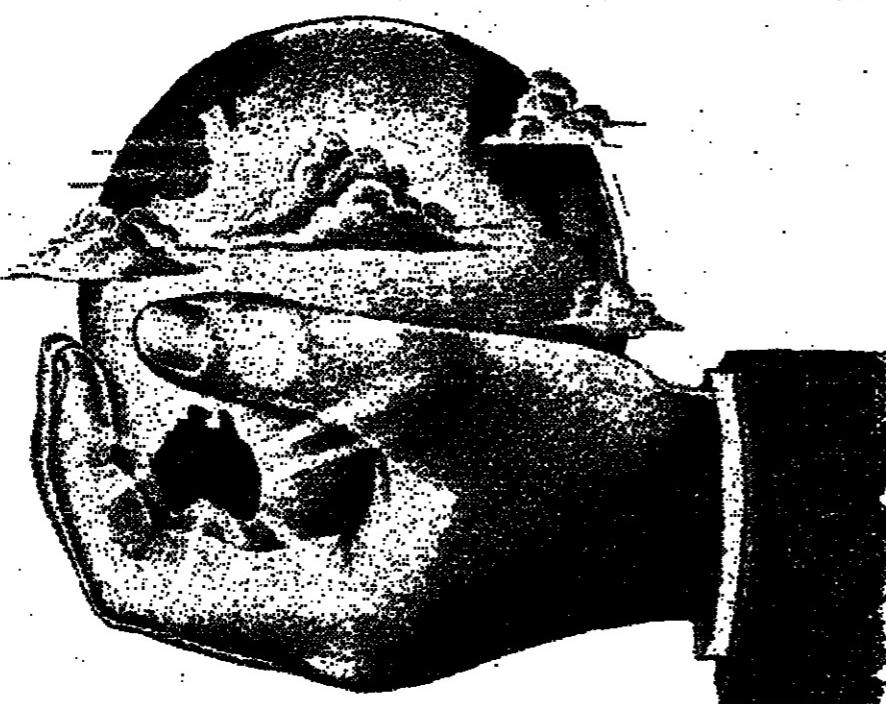
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THE DECISION announced last month by the Australian Government not to significantly alter the level of protection applying to the textiles, clothing and footwear industries was a bitter blow to the anti-protectionist lobby and to the Industries' Assistance Commission (IAC), the Government's advisory body on tariffs.

After two public draft reports and more than a year's debate and intense lobbying on the issue, the Government rejected the IAC's recommendations to abolish quotas on textiles, clothing and footwear and gradually reduce tariffs over a five-year period beginning in 1981.

The Government, which is facing a federal election on October 18, said it could not accept the projected loss of 11,000 jobs, in addition to the expected 16,000 to 19,000 jobs that will be lost to the sector by 1986, because of technical reasons. The sector currently employs about 100,000 people, a fifth of the manufacturing workforce.

Quotas and tariffs will remain for a seven-year period starting in 1982 with token concessions to developing countries, a definition which does not extend to Australia's neighbours, the Association of South-East Asian Nations (ASEAN).

Apart from the IAC itself, the announcement brought audible groans from the Treasury because of the economic implications and from the department of foreign affairs because of the foreign policy issues.

Members of ASEAN—Indonesia, Malaysia, the Philippines, Thailand and Singapore—which, as Australia's near neighbours, are of immense strategic importance as well as economic significance because of their rapidly growing economies, were predictably angry at the decision.

Prime Minister Lee Kwan Yew of Singapore publicly criticised Australia's protectionist policies on manufactures at this month's Commonwealth Heads of Government Regional Meeting in New Delhi. Mr. Lee said Australia could not expect

the Government accepted last year the recommendations of the Crawford Study Group on Structural Adjustment, which

support for its campaign against the protectionist policies of the European Economic Community and Japan, while itself retaining high tariff barriers against its neighbours.

On the economic aspect, the Treasury believes that lowering protective tariffs despite possible unemployment in the short-term is essential for easing other pressures likely to arise in the 1980s as large-scale resource development gets underway.

The expected inflow of foreign capital for development and expected rise in export income from increased mine output, coupled with import restrictions is likely to lead to a balance of payments surplus and bigger than desirable increase in the money supply.

This in turn would lead to higher domestic inflation and measures to combat it such as higher interest rates and re-evaluation of the dollar—moves which would hurt efficient and inefficient producer alike.

Far better, argues the anti-protection lobby, to restructure industry in a way that hurts only the inefficient sectors, leaving the efficient to take up the resources liberated by the decline of the import-substitution industries.

Manufacturing employs just over 1m of Australia's 6m workforce and contributes around 20 per cent to both Gross National Product and export income.

The Government, in theory at least, is committed to reducing tariff protection. Its 1977 White Paper on Manufacturing Industry recognised that import constraints had resulted in resources being diverted into a highly diversified manufacturing sector, with employment levels in many areas "directly dependent on the continuation of protection".

However, the actual decision to lower protection with its politically unpleasant implication of higher unemployment (Australia's current rate is 5.8 per cent) seems to be receding further into the future.

The Government accepted last year the recommendations of the Crawford Study Group on Structural Adjustment, which

recommended gradual reduction of import restrictions. However, although the Crawford Study Group recommended that the Industries' Assistance Commission begin an assessment of the economic circumstances of protection policy in general, the Government has decided to defer this review until the end of next year when the IAC is expected to complete its current industry-by-industry review, of which the controversial textiles, clothing and footwear industries was a part.

The IAC is expected to take 18 months to complete its review once it begins late next year and by then the Government will be facing another federal election. Unless the economy has substantially picked up, neither the Liberal-National Country Party coalition nor the Labor Party will want to make decisions that can be seen to cost jobs.

Measurements and comparisons between countries on levels of protection are notoriously hard to quantify because of the

various rules that can be used to restrict imports. Australia, for example banned for a time imported French cheese which was being flown in to Sydney and doing a roaring trade through delicatessens. The argument used was not that the local industry needed protection, but that foot and mouth disease might be transmitted by the fresh cheese.

So far debate on protection in Australia has centred largely on potential job loss rather than its effect on the consumer from lower prices for imported goods and a better allocation of the nation's resources. This is mainly because the industry lobby groups comprising both management and workers of threatened sectors have been much more vocal than consumer groups.

As part of its policy of trying to generate more informed debate on the issue, the IAC has published information papers which quantify "nominal" and "effective" rates of assistance and estimates of tariffs as taxes to consumers.

Nominal rates measure the amount of prices of imports and import-competing domestically produced goods are raised because of protection.

The "effective" rate measures net assistance by taking into account tariffs that might apply to an industry's inputs.

The average nominal rate of assistance to the manufacturing sector in 1977-78 was 15 per cent and the average effective rate was 26 per cent.

Ford, beverages and tobacco processing which is the largest manufacturing sector in terms of employment (around 200,000) and contributes to GNP and exports, has an effective rate of assistance of 13 per cent.

Transport equipment, including motor vehicle manufacture, which employs around 150,000 people has an effective rate of protection of 61 per cent, clothing and footwear 49 per cent, textiles 57 per cent, basic metal products 14 per cent and fabrics 10 per cent.

While Australia lambasts the EEC over its protectionist policies, Australia itself has been subject to some bitter criticism from the Association of South-East Asian Nations over Australia's protective tariffs on manufactured goods.

At the Commonwealth Heads of Government Regional Meeting in New Delhi, earlier this month, Singapore's Prime Minister, Mr. Lee Kwan Yew attacked Australia as being in danger of becoming "irrelevant" in South-East Asia. He said Australia could hardly expect support for its campaign against the EEC's protectionist policies while maintaining its own protective regime.

Mr. Lee's attack was sparked by the Australian Government's recent decision not to significantly change the levels of protection applying to textiles, clothing and footwear because of the unemployment that would be generated.

Mr. Anthony replied to Mr. Lee's criticism saying "it was just not true" that Australian trade policies were more restrictive, conservative and backward-looking than the EEC, as claimed by Mr. Lee.

ASEAN sales to Australia grew by 27 per cent a year from 1973-74 to 1978-79, to a total of A\$641m and this has risen in 1979-80 by 57 per cent to just over A\$1bn. Australian exports to ASEAN were A\$1.4bn in 1978-79.

Ironically, the trade balance between Australia and Singapore is in Singapore's favour. "While Singapore is selling more to Australia than we do to Singapore, we never know from one day to the next what new EEC barrier we will face, except that it will be a big one," said Mr. Anthony.

"If Australia could get access to the EEC as good as the access Singapore gets into the Australian market, we would have little to complain about."

Australia argues that while it allows an increasing market share to imports, the EEC has totally closed traditional markets to Australia while disrupting through subsidised exports markets in other countries which Australia has developed to compensate for the EEC loss.

Even people who do not approve of Australia's tariffs point out that there is a limit to the amount of textiles, clothing and clothing a country of 14m can absorb. Australia, on a per capita basis, already imports more of these sensitive

AUSTRALIAN MANUFACTURING INDUSTRY

	Average annual growth in value added 1968-69 to 1977-78 at constant prices	Employment June 1978/69	% Average effective growth 1977-78 over 1968-69	Protection rate in 1977-78
Food, beverages and tobacco	5.3	183	12.4	37%
Textiles	0.1	37	-5.2	37%
Clothing and footwear	-0.4	80	-4.8	44%
Wood, wood products	1.3	71	7.7	18%
Paper, paper products, printing	2.3	95	9.8	29%
Chemical, petroleum and coal products	3.2	82	10.4	19%
Non-metallic mineral products	2.9	45	1.8	5%
Basic metal products	2.7	89	-0.1	14%
Fabricated metal products	-0.3	103	-1.5	28%
Transport equipment	1.9	155	2.4	61%
Other machinery and equipment	1.8	240	1.4	21%
Miscellaneous	-1.9	43	-0.5	27%
TOTAL MANUFACTURING	2.7	1,123	-1.5	28%

Note: Effective rate of assistance = % by which value added per unit of output is increased by tariffs, quotas and subsidies.

Source: Industries' Assistance Commission.

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During the 1980s, inflation is expected to increase its share slightly and there is expected to be a continued move to the service sector, especially to tourism which could offer as many as 60,000 new jobs within the next five years.

The Government is committed to an Australian motor vehicle industry and has already indicated that it will continue to allocate 80 per cent of the market to Australian manufactured cars holding at least Japanese and European competition through tariffs and quotas.

However, even in this sector there will be some room for specialisation and economies of scale as Australia participates in component manufacture for the "world car" concept of the large manufacturers General Motors Holden (GMH) and Ford.

Off-set deals for purchases of foreign capital goods like aircraft will also continue to be a government objective.

There is general agreement that Australia's future lies in high-technology, capital intensive industries and not in labour intensive manufacturers which can be produced so much more effectively by Australian Asian neighbours. But for politicians with textile and automobile factories in their electorates, implementing policies towards this end, is not so easy.

Patricia Newby

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CONTINUED ON NEXT PAGE

AUSTRALIA V

Coal export boom forecast

RISING OIL prices and instability in the Middle East have led to a surge of enthusiasm in Australia, in the past year, about the country's potential to supply alternative energy—especially coal. Vast reserves of previously uneconomic steaming coal, used for power generation, are expected to be tapped in the next two decades to power industry at home and provide exports for an energy-hungry world at large.

This dirty, bulky, unglamorous resource has been hailed as the key to what the Prime Minister, Mr. Malcolm Fraser, has described as a decade of "unparalleled development and investment" in Australia in the 'eighties.

The World Coal Study has estimated that Australian coal exports could rise from the current 42.5m tonnes a year to 160m tonnes by the turn of the century, taking the country from its present position as the world's second largest exporter (after Poland) to number one exporter.

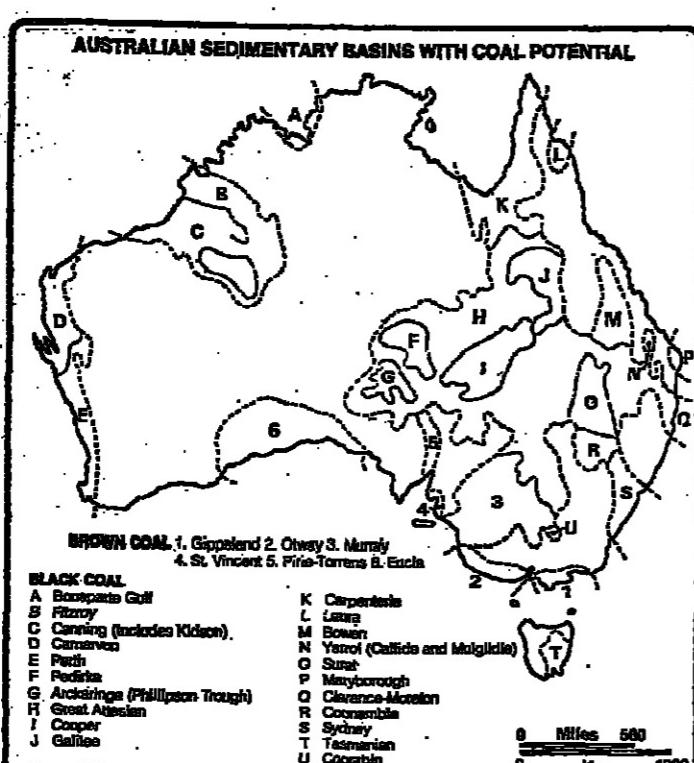
The international energy agency has estimated that demand for Australian coal could rise by the year 2000 to 195m tonnes a year, about half of which would be for steaming coal, used for power generation, and half for coking coal, used in steel production.

Coal is already one of Australia's largest export income earners—at A\$1.7bn in 1979-80, it ties with beef and wool as the second biggest revenue earner, after wheat, at A\$2.9bn.

Japan, the main customer for Australian coal, took 28.5m tonnes of total exports of 42.5m tonnes in the financial year ended June 30, 1980. The UK was next largest customer for both coking and steaming coal, although both countries are trying to diversify their trading partners.

Australia supplies about 40 per cent of Japanese coking coal requirements; for security of supply, Japan would like to reduce this proportion to about one-third—the rest coming from Canada, the U.S., China and other countries.

Japan's intention to diversify supply sources appears to have intensified following a 10-week



strike by Queensland miners which ended last month and which held up about half Australia's coal exports.

Australia for its part hopes to develop substantial coal trade with the rapidly growing economies of the Association of South-East Asian Nations, South Korea and Taiwan and, to that end, is offering technical assistance, mostly on a commercial basis but sometimes as part of aid programmes, to countries in the region interested in converting from oil to coal-fired power generation.

However, as the dust and dust is the word with coal settles on the initial enthusiasm, a harder look is being taken at obstacles to rapid coal development.

Resources

However, physical constraints on the amount of development that can take place in a relatively short time and a possible backlash against coal when people realise its full social cost could slow coal export expansion.

As one mining official commented, "Mrs Sydney and Mrs.

Tokyo are already objecting to their washing catching the filthy dust from coal loaders."

There is a feeling among Australian mining officials and bureaucrats that the world will probably reassess nuclear power within the next 10 years when the world realises the sheer volume of coal needed to replace oil and the associated problems, such as transportation and environmental and health factors involved in mining and burning coal.

Coal mining is still hazardous, in terms of accidents and miners' health. The open-cut mines, used extensively in Queensland, also create enormous environmental problems.

The built-up areas, such as Sydney, Newcastle, and Wollongong in New South Wales, dust from the coal trains—as they arrive at the ports and off-load coal—is already drawing protests from local residents. Then there is the additional pollution caused by coal-fired power stations.

Although electricity generating authorities maintain that emission control is better than for oil-fired power stations, there are still doubts in the minds of many people about sulphur dioxide, ash and even radiation released from power stations. Most of the environmental problems can be overcome, but at a cost which, of course, eats into the price differential between coal and alternative fuels.

There is also a suspicion that more oil will be found in the next 20 years and that more sober estimates of coal requirements will emerge as the initial panic caused by the rapid escalation of oil prices in the past few years subsides.

Even if coal demand is as voracious as current estimates, a number of factors may well hamper development. Coal miners will have to compete among themselves and with other miners for capital, labour and equipment. In addition, the great infrastructure development programme which includes 18 coal-fired power stations to double Australia's electricity-generating capacity by 1987 and five new aluminium smelters to

Japan has already announced decisions to cut back on some minerals smelting because of the cost of fuel and pollution problems. By investing in coal mining and raw material processing in Australia, Japan can "export" its pollution problems and import the benefits of cheap power. What Australia has to offer in the 1980s is "congealed electricity" or "frozen power."

In times of rising fuel prices for shipping it makes even less sense to be transporting bulky minerals and the coal to fuel processing halfway around the world.

Vastly increased production of aluminium using Australian bauxite and coal is already underway and there is obvious potential for more Australian processing of copper, zinc, ferromanganese and alloy steels which require high concentrations of electricity.

However, the six-year time lag on the building of a power station will obviously act as a break on growth, despite the effort being made by generating authorities to meet expected power demands.

Other factors such as port dredging and expansion, coal loader facilities, railways and even adequate mapping of proposed coal mines and their associated towns and infrastructure are possible bottlenecks to coal expansion.

The opportunities for a coal-fired boom exist in Australia. It is a question of whether—and how quickly—they will be seized.

Patricia Newby

take the country to number one aluminium exporter by the mid-1980s will also be competing for investment finance and labour.

Sir James McNeill, chairman of the mining and steel-making company, BHP, said: "Obviously,

there are some misgivings about the concentration of development that is expected in the coming decade."

Capital, he believes, can be attracted from within Australia and abroad, but like other mining leaders and the Government itself, he sees a looming shortage of skilled labour as the main constraint to growth in the 1980s. Chronic shortages of geologists, mining engineers, and skilled workers such as metal tradesmen are being predicted from all sources with an increasing air of helplessness.

Skilled labour

Some attempts are being made to improve the antiquated apprenticeship system inherited last century from Britain, but it appears that skilled labour will have to be imported through immigration at an accelerated rate throughout the 1980s.

The idea of skilled guest workers, for example, Japanese engineers, and Korean construction workers is being floated by some mining companies although it is bound to get short shrift from the unions while unemployment remains at nearly 6 per cent of the workforce.

Rising oil prices have made the exploitation of steaming coal deposits in Australia a viable alternative source of energy. An obvious scenario is to use that competitive advantage to process the country's raw minerals.

Japan has already announced decisions to cut back on some minerals smelting because of the cost of fuel and pollution problems. By investing in coal mining and raw material processing in Australia, Japan can "export" its pollution problems and import the benefits of cheap power.

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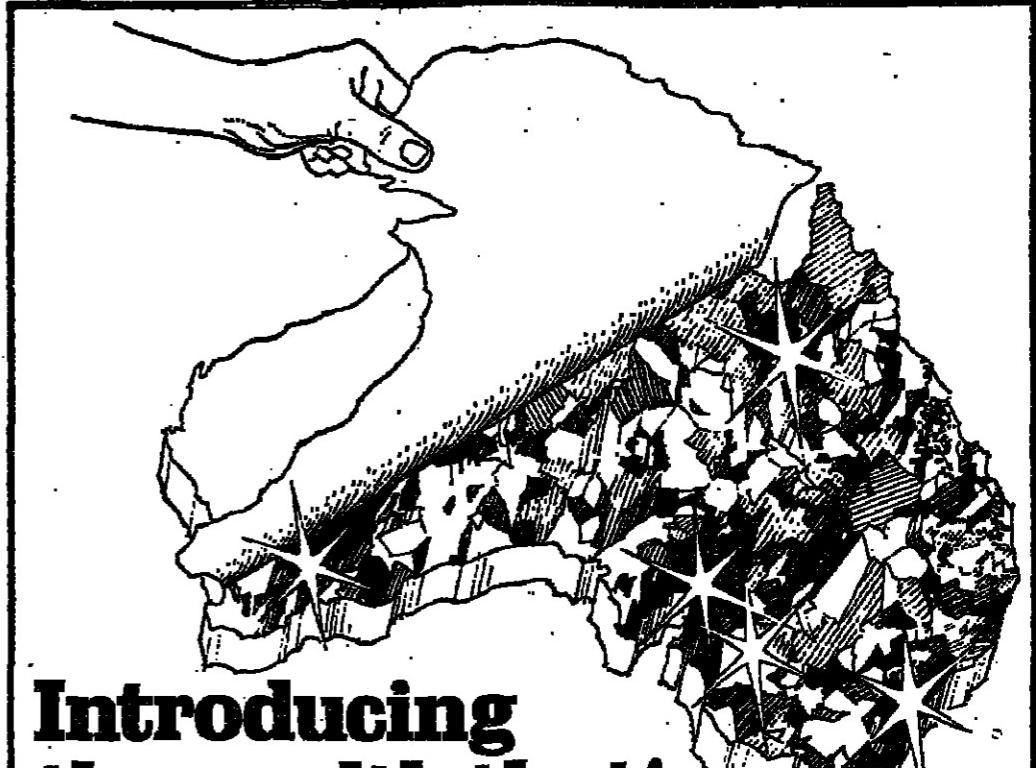
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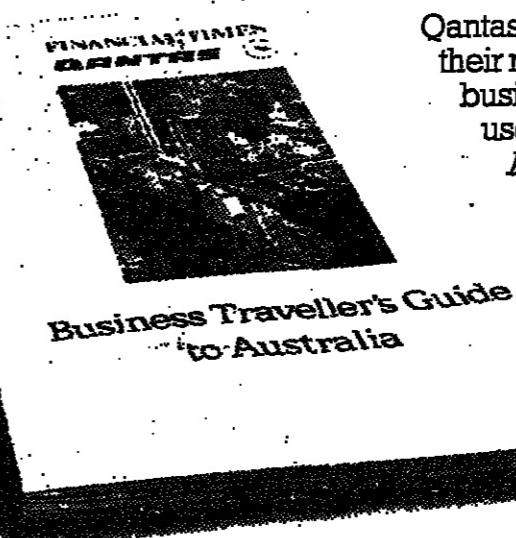
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Trade

CONTINUED FROM PREVIOUS PAGE

products than most industrialised nations including the U.S. and Japan.

Australia would dearly like to shift the debate from bilateral trade balances to a perception of Australia as a supplier of raw materials and energy, especially coal, to the benefit of the ASEAN economies, enabling them to sell more goods competitively and thus improve the well-being of the region as a whole.

To some extent, this is already happening, as can be seen from the shift in Australia's export composition. Until the mid-1980s, minerals constituted less than 10 per cent of total exports. In 1979-80 this share was roughly 36 per cent.

The rural sector, although still the biggest contributor to export income at 40 to 45 per cent of total exports, has declined from its dominant position in the 1950s and early 1960s.

Exports of manufactured goods have grown rapidly in the past two years as Australia's inflation rate, currently at 16.5 per cent, has fallen relative to many other countries and as the Australian dollar has declined against other currencies.

Elaborately transformed manufacturers (FTMS), which exclude processed minerals and primary products, have been growing at between 30 and 40 per cent a year in the past two

years. However, this is likely to be one of the worst hit sectors if Australia's exchange rate appreciates under pressure from capital inflow for resource development and subsequent increases in export income as mines start producing.

Australia is having some success in developing high-technology, highly-skilled manufacturing industries such as medical instruments and heart pacemakers which it hopes will maintain a competitive edge.

Australia's relatively cheap sources of energy generated from coal may also help offset some of the disadvantages of high wages and a rising exchange rate.

The sale of consultancy ser-

vices to South-East Asia and the Middle East is also developing for projects such as telecommunications, dam and road-building (especially where experience of deserts is an advantage), and design for entire townships following expertise gained developing townships "from scratch" for remote mining areas of Australia.

Despite the current acrimonious wrangling with the EEC and ASEAN and looming exchange rate set-backs, the broadening base of Australia's exports has led to general optimism about the country's future as a trader.

Patricia Newby

P.N.

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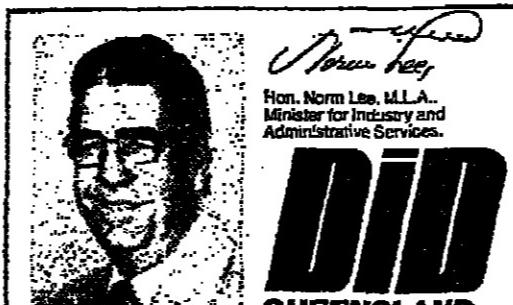
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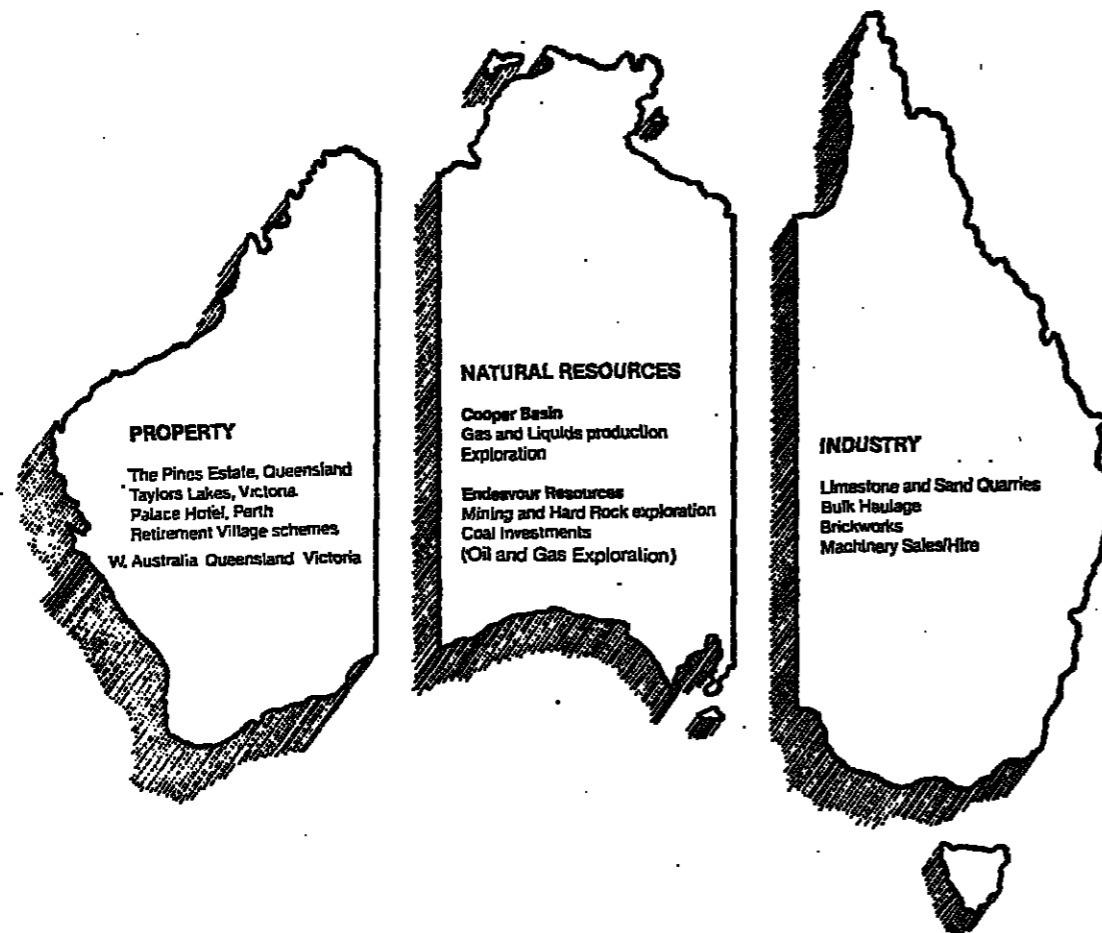
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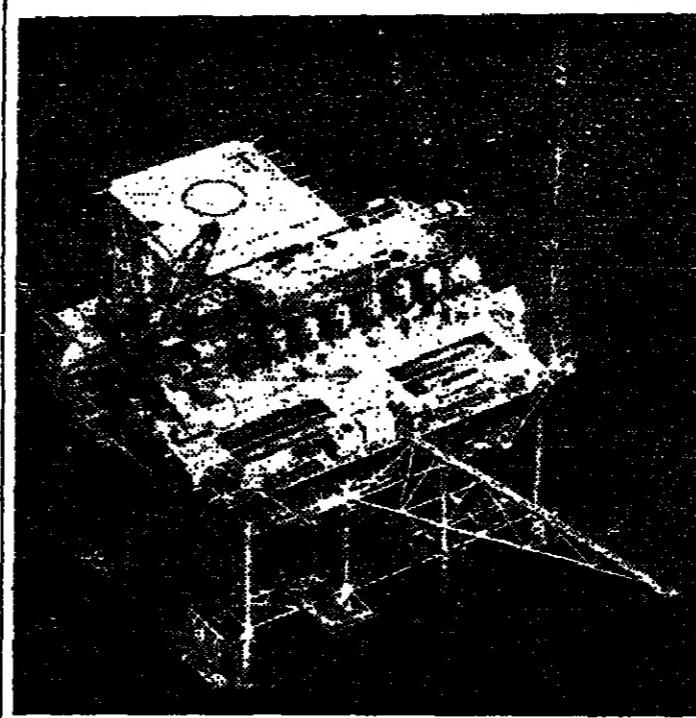
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AUSTRALIA VI



Above: a rig in the Bass Strait oil and gas field. Right: an Aboriginal worker at a stone-crushing plant. Aboriginal Land Rights have been an issue in Australia for a decade, since minerals were discovered in remote areas of the continent.



Growing interest in gas exploration projects

ALTHOUGH THE natural gas project on the North West Shelf has been underway for nearly a year, the newspaper headlines concerning this \$85bn project tend to give the impression that the go-ahead is still some way off. The companies involved, BP, BHP, Cal-Asian, Shell and Woodside are soon to sign their formal participants' agreement. This will follow a liquefied natural deal with Western Australia's State Energy Commission. Then will follow a liquefied natural gas (LNG) sales contract with Japanese power companies. This alone will be worth \$50bn, give or take a few billion.

The project started three years ago. Western Australia's Premier, Sir Charles Court, counselled industrialists to gear up or miss out on spinoff from the nation's biggest commercial venture and warned that "when the whistle blows, the game will be fast and furious."

Although the whistle hasn't blown, the game has started. It has not yet become fast and furious, because many have not realised that it has started.

The key is in world gas prices which have risen faster than oil prices since Sir Charles' timely warning. The sequence was to have been (i) LNG letter of intent; (ii) financing based on this agreement; and (iii), letting of the first critical-path contracts to get the project underway. The Woodside group has been able to reverse this sequence and move ahead in confident anticipation that it will all work out because what had started as a marginal prospect has been transformed into a most profitable one. The trend of gas prices suggests the seller's market will continue.

This same market turnaround promises other radical changes. From its conception through its 20-year gestation, the development has been viewed as a one-off phenomenon. Exporting just over half the North Rankin field's reserves was justified because it provided the economies of scale needed to bring the gas ashore and to have it piped 1500km from Dampier to Perth for local industrial use.

Premium fuel
The technical problems involved are extremely complex. Exploitation involves lifting gas from 4,000 metres of water and mud, 130 km offshore on a remote and cyclone-swept coastline, then chilling the gas to near absolute zero and transporting it 6,700km to the nearest market, where it is "regassified" and used in the production of electricity. But instead of fading out, LNG is taking up part of nuclear power's slack, as natural gas enters an unexpected boom; LNG has become a premium fuel. Australia, because of its stability, has become a premium source.

There are wide implications in this, with other Australian gas deposits becoming attractive. The Woodside group has decided to exploit the nearby Goodwyn gasfield (apart from North Rankin), with a third platform. There are improved prospects, too, for the Wapet group (Ampol Exploration, Cal-Asian, Shell and Texaco) at its West Trial Rocks gasfield on the North West Shelf and for the Petrel and Terra fields, with Aquitaine the prime force, in Bonaparte Gulf Basin in the far north.

Drilling began off the Exmouth Plateau off the North West Shelf, in 1979, on the basis that only major oil accumulations could be considered in such deep water, even then on technology's leading edge. The new gas price scale and the discovery of what appear to be immense gasfields have shifted the technological frontier to the point where even this gas will probably be exploited.

Gas gives Australia strong leverage in working towards the best option for resources development. It can be retained as a relatively cheap energy source: a cubic foot of gas, used onshore adjacent to the North West Shelf, will cost about half

the same cubic foot of gas via jacket. Indeed, this signalled that the project was inexorably underway. Moving through the "weather window" of northern hemisphere typhoon and North West Shelf cyclones, the jacket must be on location mid-1982 to meet the 1984 initial production schedule.

Later this month, contracts are due to be let for the first eight process modules for the platform, to be built at Perth's new Jetty Bay load-out facility, and for the accommodation and helipad modules. Tenders are being considered for the flare jackets; and, on the hook-up side, for platforms and module installation, hydrafabric welding, submarine pipelines, trenching and stabilising and grout bagging.

Cost levels

Perth's prime office space has been filled as a steady stream of contractors' and consultants arrive to work on this project, as well as Alcoa's Wagerup and the Reynolds-Shell-BHP Worsley alumina developments (the State's first \$100m-plus projects after a break of about eight years).

Yet costs have remained surprisingly steady, largely because the flood of work is yet to have a drastic effect on the fabrication industry, where competition - built-up in anticipation of the energy-based boom - has become fierce.

Although some of the big contracts have already gone overseas, including a controversial job to Hyundai of Korea, Australia's west coast is establishing the infrastructure necessary for it to qualify next time.

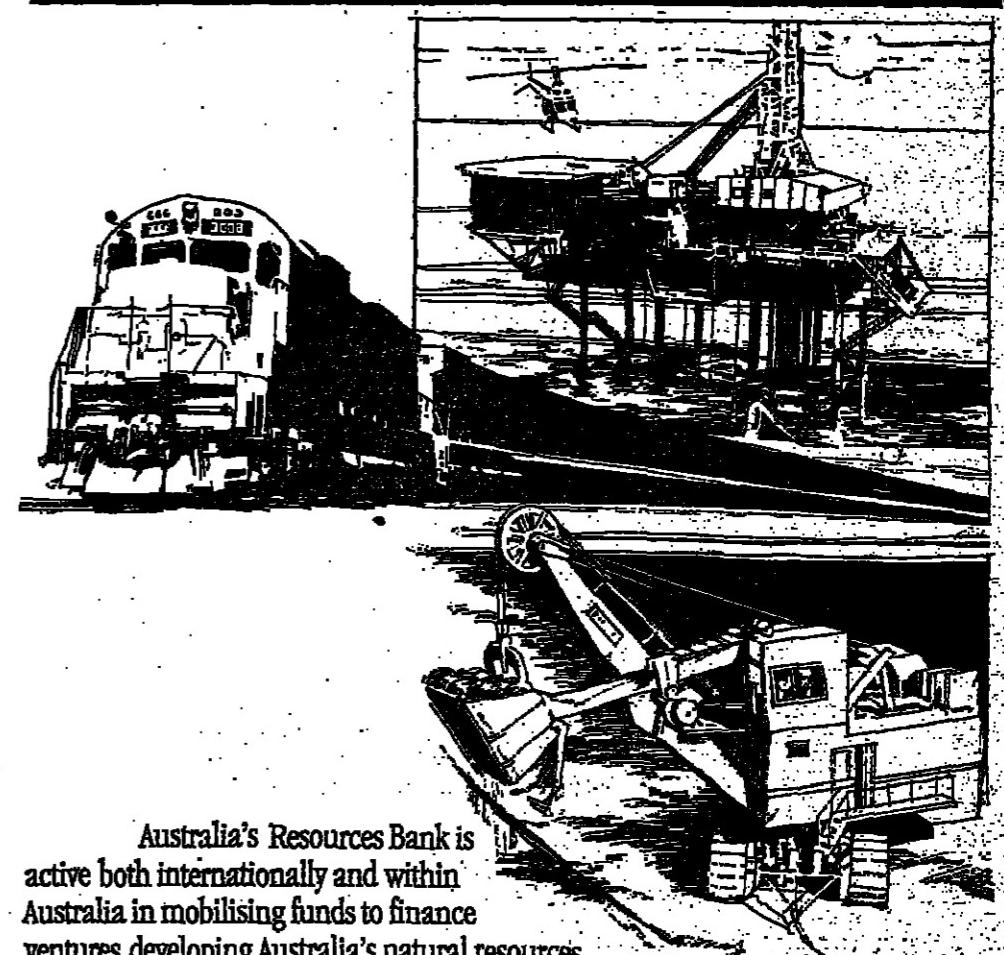
Shell made it clear at the outset they were not in the business of financing projects - and Australia's lack of experience has proved costly. One of the attractions of LNG is that the customer nations can offset energy costs by exporting its technology for LNG, thus comprising a high proportion of total outlay.

As big as it is, the North West Shelf project can safely be regarded as Australia's "big in the petroleum export door". The rules will change next time, as local industry demands a bigger share of the spinoff and as local politicians feel more able to ensure that they receive it. With gas prices rising, the fact that the west coast is considered gas-prone is less discouraging to explorers. Industry experience suggests that the consequent increase in drilling will produce oil as well as gas.

Thus, with considerable help from world gas market, the North West Shelf development has become an important catalyst for the exploration and processing industries, quite apart from being the biggest private industrial project in Australia's history.

Don Lipscombe

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AUSTRALIA VII

A rapid surge in mining developments

ALTHOUGH THE mining industry has long been important to Australia, it will become increasingly so in the 1980s as the result of a huge surge in the development of fresh mining projects, primarily based on energy-related exports.

The inexorable rising prices for oil has focused the world's attention on alternative energy resources, and Australia comes out high on the list. It has abundant supplies of steaming coal, natural gas, uranium and oil substitutes such as oil shale and coal suitable for liquefaction.

The availability of large amounts of relatively low-cost energy is also attracting energy hungry industries such as aluminium. It was not until the 1960s and 1970s that large, capital intensive open cut mines, big by world standards, were developed in Australia.

As a result, the contribution of minerals, including petroleum, grew from 24 per cent of total export income in 1968-69 to about 40 per cent in 1978-79.

Moreover, this was achieved during a period of world-wide economic recession, and when Australia's traditional major exports of pastoral and agricultural products had been declining. The coming "development decade" will outstrip the growth of the past 20 years and require huge sums for investment.

Investment

A recent study by the Department of Industry and Commerce recorded investment projects totalling A\$29bn in the 1980s, almost entirely accounted for by the mining and mineral processing industries. This is more than A\$6bn higher than the previous estimate by the department in October of last year.

But it is much less ambitious than some of the surveys conducted by private interests. A recent study, prepared for the Australian Industries' Development Association, put the projected capital spending over the decade at A\$80bn.

The management consulting group, W. D. Scott reached a figure of A\$52bn. Certainly the industry and commerce survey made little allowance for the boost in electrical power generation needed to cater for the development, and which is estimated to require at least A\$10bn. Nor did it include ambitious projects such as Rundle oil shale venture in Queensland, in which Esso, owned by Exxon Corporation of the U.S., recently joined with

two small Australian companies. The venture envisages production of 200,000 barrels of synthetic oil a day by 1990—equivalent to about 30 per cent of Australia's present requirements and 20 per cent of its estimated 1980 requirements.

The problems are formidable. It would require mining massive amounts of material—up to 1.5m tonnes a day, and the capital costs could run between A\$10bn and A\$15bn. Esso seems confident that the project will go ahead. Yet Rundle is only one of several oil shale deposits in Queensland, and by no means the largest, although it is amenable to mining, and located close to a port.

The mining boom, 1980 style, will be different from that of the late 'sixties and early 'seventies. That surge was based on iron ore, coking coal and bauxite-alumina. This time around it will be energy resources steaming coal, uranium, natural gas.

The commitments already made to install aluminium smelters to boost production of the primary metal are also related to energy. Aluminium smelting is an energy intensive process and the increasing cost of power in the major aluminium producing countries, such as the U.S. and Japan, is forcing the siting of smelters close to the power source rather than to the markets.

In effect, Australia will be exporting energy in the form of aluminium ingots—or "canned electricity" as some have dubbed it. At least five new smelters are planned which will boost Australia's production of aluminium from 280,000 tonnes a year, or two to three per cent of total world production, to 1.6m tonnes, or 10 per cent by the mid-1980s.

Australia is already the world's largest producer of bauxite, accounting for about one-third of the western world's total output and is second to the U.S. in alumina production, accounting for close to 30 per cent of the western world's output.

Steaming coal, once the poor relation to the higher-priced metallurgical coking coal, holds out great promise. But the rising cost of oil is inducing power utilities around the world to convert from using fuel oil to steaming coal for power generation.

Japan in particular is expected to import huge amounts of steaming coal, with Australia and the U.S. the most

important suppliers. Australia has almost limitless supplies of coal, enough to support expanding production and export for several centuries.

The International Energy Agency has predicted that Australia will be the world's largest coal exporter by the 1990s. A recent analysis by the Esso oil group indicated that the continent's remaining discovered coal reserves were equal to about 170bn barrels of oil, of which only about 30bn barrels would be used within Australia by 1980.

The recent world coal study predicted that Australia's coal exports would soar from 38m tonnes in 1977 to 160m tonnes a year by 2000. Exports of steaming coal were forecast to rise by an average of 14 per cent in volume terms over the

remainder of the century.

The study also found that Australia was the preferred source of supply for 25 per cent of the European market—a larger share than for any other exporter. The majority of the steaming coal projects planned at present are in New South Wales, but they are mainly underground operations, while Queensland possesses large deposits capable of open-pit mining. NSW is also plagued by inadequate coal export loading facilities and there are fears that if new facilities are not quickly installed, Queensland could obtain large long-term contracts and move into production at the expense of some of the NSW projects.

The most ambitious Queensland steaming coal venture is at Blair Athol where a consortium

including the local Rio Tinto-Zinc offshoot, CRA Arco, of the U.S. and the Japanese Electric Power and Development Corporation, want to develop a 5m-plus tonnes a year operation. They have been stalled because the introduction of the Japanese would result in a foreign ownership greater than the 50 per cent generally allowed for new mining projects.

But it is suggested that a compromise is close which would result in Arco and the EPDC finding an Australian partner to take some of their equity, and the Government agreeing to lower its equity sights, at least temporarily, below 50 per cent.

The Australian Government has already softened its foreign ownership guidelines in recent years and introduced the con-

cept of granting honorary Australian status to companies which agreed to "naturalise."

Majority

To qualify, a company must first have at least 25 per cent local equity and give an undertaking to increase it to 51 per cent, as well as ensuring a majority of Australians as directors. The Government may be forced to make further accommodations if it wishes to see all the proposed mining projects come to fruition.

But not everyone is convinced that the mining industry should be allowed to expand at the projected rate, simply because the growing pains could be too severe.

For a start, the domestic market is not capable of

financing development on the scale anticipated, even if the current Campbell inquiry into the financial system comes up with new means of mobilising capital. The states are now heavy competitors with the private sectors for funds from the capital market to finance their infrastructure requirements, creating the possibility that the private sector could be unduly squeezed.

The influx of foreign capital which will be necessary will put pressure on the money supply and increase inflationary pressures. Together with the expected boost to export income as the developments come on stream, there will be upward pressure on the Australian dollar.

This would rebound upon the

mining companies themselves, as it did in 1972 when the revaluation was an outcome of the mining developments of the late 60s. But probably more important from a political viewpoint is that it would put a heavy strain on the manufacturing sector, particularly costed industries such as motor vehicle manufacture and the textile, clothing and footwear sectors.

Despite recommendations by the Industries' Assistance Commission to restructure these industries, the Government has so far declined to act, because they are labour intensive. The mining industry, on the other hand, is capital intensive and a relatively small employer of labour.

James Forth

Clash over Aboriginal Land Rights

THE CLASH between mining and Aboriginal Land Rights has hit the headlines again in recent months with the bitter conflict over oil drilling on an Aboriginal sacred site on Noonkanbah Station, in Western Australia.

Although most white Australians want progress, they have no particular love for multinational mining companies and public opinion has often sided with the Aboriginals.

As one cynic remarked: "The land doesn't belong to the Crown or to the Aboriginals—it belongs to the first multinational that finds minerals on it."

Inquiry held

Mining of the ranger uranium site in the Northern Territory was postponed for two years while an inquiry was held into all aspects of mining and export, including damage to Aboriginal sacred sites and disturbance to their communities.

Partly as a result of public opinion, the Whitlam Labor Government initiated legislation which was implemented by the Fraser Liberal-National Country Party Coalition Government in 1978 to give Aboriginals land rights in the Northern Territory.

Apart from protection of their sacred sites and magnificent "galleries" of rock art, painted on cliff faces and caves, all over the Northern Territory, Aboriginals see land rights as absolutely essential to self-determination and progress in

whatever form the people choose for themselves.

Mr. Gary Foley, an Aboriginal activist said: "We will not be satisfied until the Aboriginal people have self-determination and this can only come when we have full control over our land and whatever money is necessary to establish economic independence."

"What we want is control over the land, the air above it, and what's underneath."

Under the Northern Territory Land Rights Act, about 25 per cent of the Northern Territory's 1.3m sq. kms has been granted to Aboriginals and further claims are being processed.

The Government maintains that minerals on Aboriginal land still belong to the Crown, but it has also recognised Aboriginals' spiritual ties to the land.

Thus under the law, exploration for minerals can take place on Aboriginal land but only with consent of the Aboriginal owners, but if they do consent to exploration they must by law, consent to mining.

In theory it is up to the mining company involved to negotiate with the Aboriginal owners on compensation and royalties.

The Australian Mining Industry Council, which represents the non-oil mining sector, has criticised the Act, complaining that the Aboriginals' right to veto against mineral

exploration is accorded to no other Australian landowner.

The white Northern Territory administration based in Darwin has also criticised the act as creating a series of "black states" in the territory.

The Northern Territory contains large reserves of uranium (an estimated 17 per cent of the western world's easily recoverable reserves), bauxite, copper and gold. The 27,500 Aboriginals and their descendants comprise 26 per cent of the population and 20 per cent of Australia's total Aboriginal and part-Aboriginal population.

Sacred sites

For 40,000 years, Aboriginals are thought to have inhabited Australia and their spiritual relationship with the land is undeniable. Aboriginals believe that, for a child to be born, a spirit must first enter the mother's womb to give the child life.

These spirits come from geographical sites on the landscape—sites associated with characters from the dreamtime, the time long ago when everything was created. To destroy these sites would be to destroy the spirits of the living Aboriginals associated with them.

"It has become fashionable," said Senator Fred Chaney, Minister for Aboriginal Affairs, "to ridicule and condemn this spiritual association with the land, to insult Aboriginals to

whom it is still of great importance, and to assert that sacred sites are found only after mineral exploration has uncovered promising finds on Aboriginal lands."

There had been a failure among whites to accept the enduring qualities of Aboriginal culture, which despite all odds, had survived 200 years of intrusion of Western culture.

"The one aid to that survival has been land," said Senator Chaney, recently.

In the wake of Noonkanbah, the Federal Government has held meetings with both mining industry and Aboriginal leaders to try to facilitate what Senator Chaney has described as "an accommodation of interests" between the two groups.

Mr. Paul Phillips, executive director of the Australian Mining Industry Council, believes that "development without desecration" is possible, and says a high degree of mutual understanding and respect has already been reached between individual mining companies and individual Aboriginal communities.

The Aboriginal view is a little less sanguine after Noonkanbah and only time will tell if a harmonious accommodation of interest can be reached between one of the world's most ancient peoples and the needs of the 21st century.

Patricia Newby

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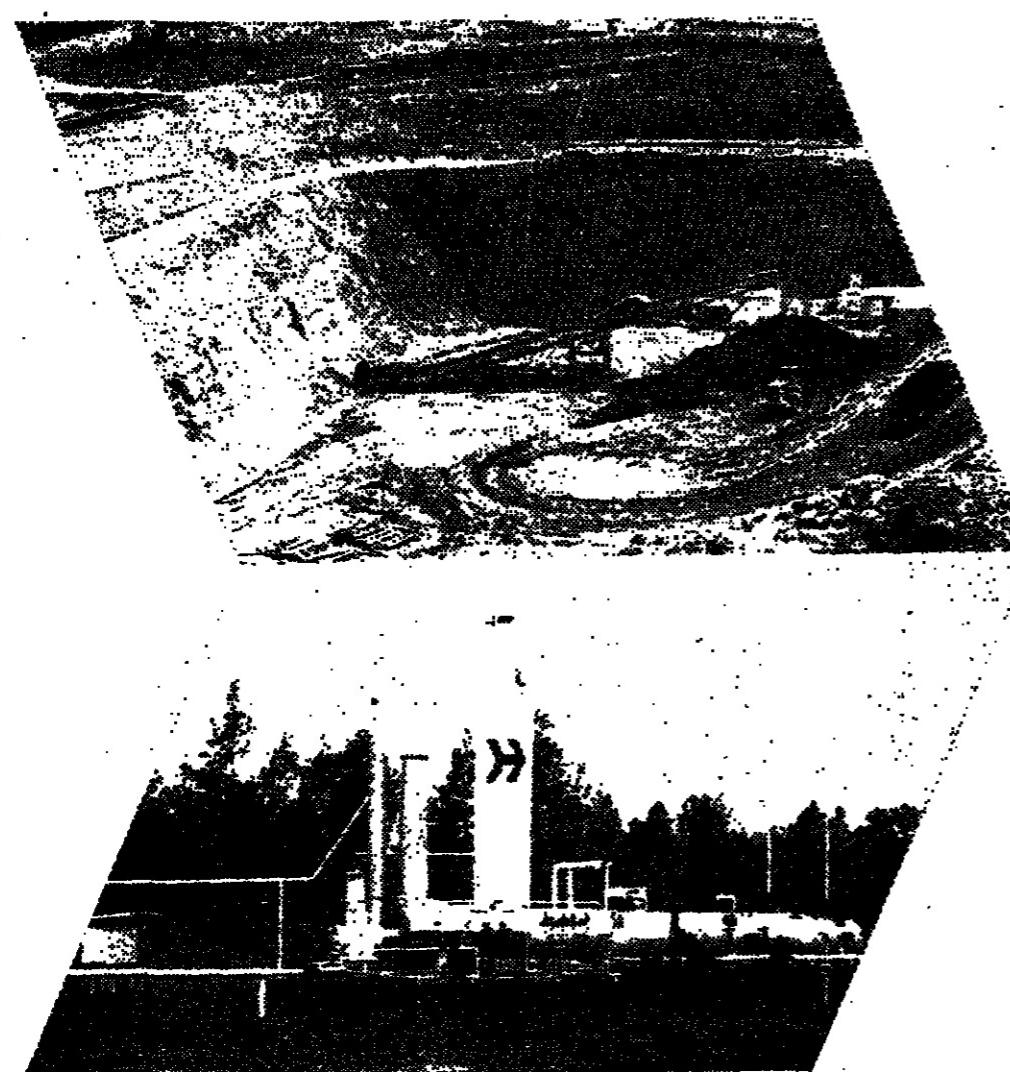
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AUSTRALIA VIII



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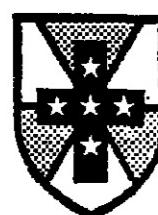
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Uranium mining back in business —but royalty problems remain

AUSTRALIA'S URANIUM mining industry is finally back in business. Within the past 12 months the relatively small, but rich, Mabarlik deposit in the Northern Territory was completely mined and the ore stockpiled for shipment.

Construction work is also well underway for the large-scale, long-term mining of the nearby Ranger uranium deposit, with production scheduled to begin late next year.

A new company, Energy Resources of Australia (ERA) has been formed to develop ranger with a paid capital of \$3410m and is about to seek \$57.5m from Australian investors in the biggest public float yet undertaken in the country.

Exploration work is underway on a number of smaller, potentially commercial deposits in several States. After years of frustrating delays, which began with the election of a Labor Government in December, 1972, the industry and its supporters should now be relaxed about the outlook. But it is decidedly uneasy, aware that there are contentious issues still unresolved and how easily the gains achieved can be undone.

For example, the ERA float is now imminent, although it too has been subject to frustrating delays and was originally expected to take place about May. ERA has been put together to acquire the interests of the original ranger discoverers, Peko-Wallend and EZ Industries. The prospectus is due in October—and so it now transpires is a federal election. For the uranium industry this raises the spectre that the Australian Labor Party (ALP) might regain once—a spectre because the ALP's current present party policy is to repudiate "any commitment of a non-Labor government to the mining, processing or export of Australian uranium."

Supply contracts

The ERA prospectus will draw attention to the ALP's policy but will also advance a number of reasons why the directors believe it is unlikely that any future Australian Government would prevent the continuing operations of ERA. The reasons include the fact that uranium supply contracts are held with utilities in several overseas countries, some of which will have an equity in ERA and that overseas banks and governments are involved in some cases.

The ERA directors argue that if an Australian Government acted against ERA it could do "immeasurable damage" to Australia's international standing and credit. The international and domestic banks, which have put up U.S.\$390m in project loans, obviously accept these arguments.

But claims of immeasurable damage just might not sway the strong anti-uranium faction in the ALP. The possibility that a Labor Government will be elected on October 18 must be worrying to the industry, to investors and, importantly, to overseas customers. The ALP policy is officially backed by the union movement, but the unions are split on the issue.

The Waterside Workers' Federation, for example, recently voted to ban the export of yellowcake from the port of Darwin—the exit point for uranium from Naborlek. The union also called on the Darwin City Corporation to declare the area a nuclear-free zone.

Whether such proposed bans will prove effective remains to be seen. But unions whose members will be employed as a result of uranium development are understandably in favour of such development. The Australian Workers' Union, for one, has made it plain that it will ignore the ALP policy.

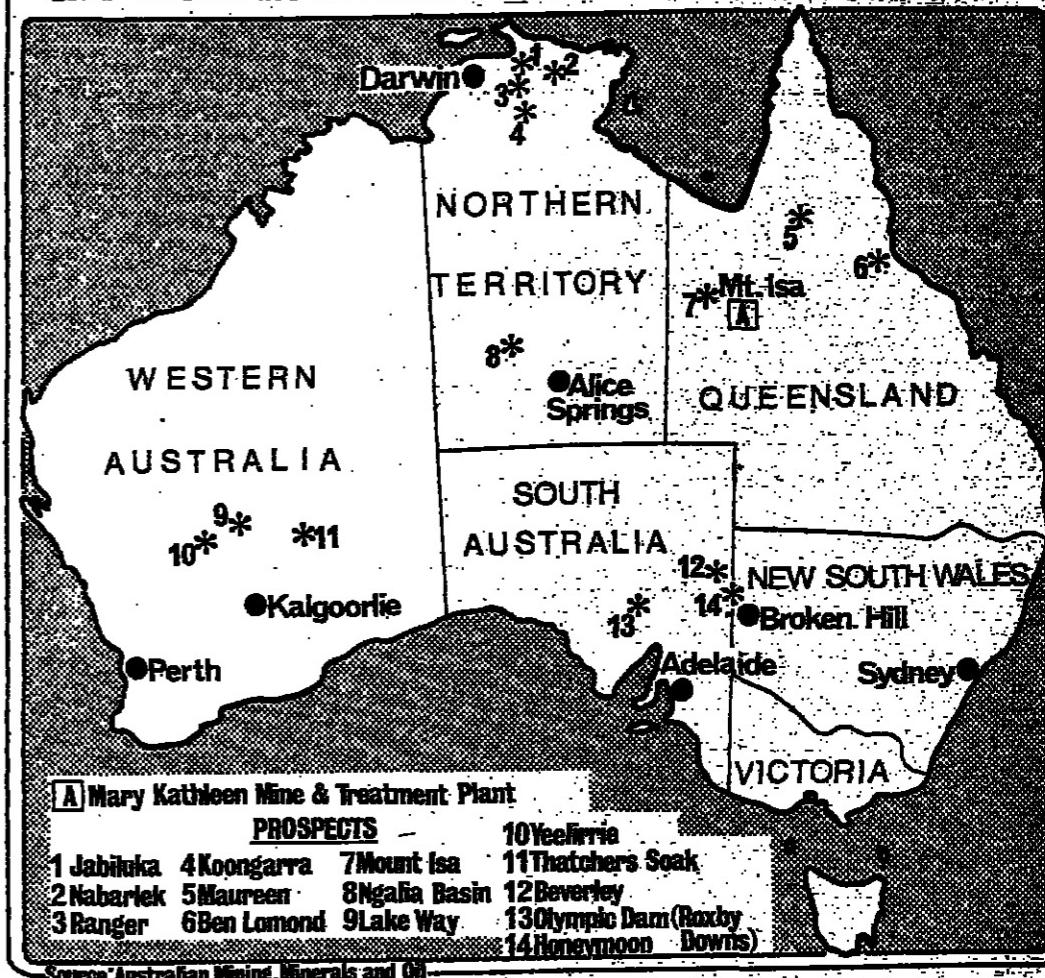
The potential exists therefore for conflict within the union movement over the issue of uranium development. In September last year, the executive of the Australian Trade Council of Unions tried to convince the unions to allow Ranger and Naborlek to proceed but this was rejected. If the Fraser Liberal-National Country Party Coalition Government is re-elected, the ALP would not have another chance at government until the end of 1983. By that time, Ranger will be well in production and other smaller projects could also be underway which would make it increasingly difficult, and increasingly unlikely, that a Labor Government would enforce its policy.

There are other thorny problems, not the least of which is Aboriginal rights. Companies wanting to develop uranium deposits in areas on which there is an Aboriginal land claim must first negotiate the "terms and conditions" of mining, including royalties, with one of the regional land councils acting on behalf of the traditional Aboriginal landowners involved.

This proved a lengthy process with Naborlek and Ranger and the indications are that it could prove even more difficult in the future as the Aborigines become increasingly aware of their power.

A recent dispute in Western Australia over drilling for oil on a site claimed to be sacred

URANIUM IN AUSTRALIA



Sources: Australian Mining, Minerals and Oil

quietly going ahead into the prospects of setting up a commercial uranium enrichment industry in Australia.

Enrichment

The major Australian companies, BHP, CRA, Peko-Wallend and WMC are involved in one study, and the Australian Government has also had discussions with the European organisation, Urenco/Centec on the possibility of uranium enrichment technology being made available to Australia.

South Australia and Queensland are vying with each other to establish enrichment facilities within their boundaries.

While this activity goes on, many observers believe that the Australian uranium industry, while it may not have actually missed the boat, will still suffer from the delay in production because the uranium market is now soft.

The Federal Government can override any Aboriginal veto on mining in the national interest—but wherever possible it would seek to avoid this fall back position. Aboriginal land rights is also clouding the prospects of resumption of exploration for uranium in the Northern Territory, which usually is a fairly reliable indicator. ERA will have an issued capital of \$3410m of which \$57.5m or 14 per cent will be put by public investors at an issue price of \$11.00 a share.

James Firth

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AUSTRALIA IX

Union reform is vital to prosperity

OVER THE years Australian trade unions have acquired a reputation for bloody-mindedness, equal only to that of their British counterparts which, in many respects, they closely resemble.

The frequency with which small, but highly-paid groups of workers have paralysed giant mining operations, cut off electricity supplies or stopped petrol deliveries has both exasperated the average Australian and driven their foreign customers, particularly the Japanese, to impotent rage.

Yet, when the record of the last five years is examined it can be seen that their power has been largely negative. They have been powerless to resist both a sharp increase in unemployment and stagnation in living standards for the bulk of Australian workers. The Liberal/Country Party Coalition Government of Mr. Malcolm Fraser may not have been very consistent in its overall economic policy, but in one area it has been very successful. It has managed to eliminate the sharp wage/productivity overshoot it inherited from the 1974 wage explosion.

Compression of living standards has been achieved mainly by deliberately running the economy at less than full capacity and through monetary policies aimed primarily at bringing down the rate of inflation.

Wage spiral

Now however, with an investment boom in the oiling and economic activity picking up across a broad front, the stage is being set for what could become another wage/prices spiral which, more than anything else, could undermine the economic prospects for the decade ahead.

To prevent this happening will require political and economic management skills of a high order and the co-operation of a trade union movement which, on present organisation and past record, it is neither able nor willing to guarantee. A large part of the problem lies in the fragmentation of the trade union movement which claims 2.8m members out of a 6.2m labour force organised into 312 federally recognised unions.

The typical union is organised on craft rather than industrial lines—again, a reflection of the

British pattern and the important role played by British immigrant unionists in the movement. At the centre lies the Australian Council of Trade Unions (ACTU) which, under the ebullient leadership of Mr. Bob Hawke, has acquired a high profile—but done little over the last decade to rationalise or modernise the union structure.

Mr. Hawke, like many other influential union figures including the metal and shipworkers' union leader, Mr. Laurie Carmichael, believe that the union movement must re-

organise itself on an industrial basis with fewer, larger unions backed up by adequate financial resources and a competent research and policy-formulating staff.

Mr. Hawke is also on record as advocating acceptance of the U.S.-style labour contract system with fixed term, legally enforceable contracts.

Earlier this month, Mr. Hawke stepped down from the presidency of the ACTU in order to enter Federal politics as Labor candidate in the safe Labor constituency of Mills in Victoria. In a future Labor government, Mr. Hawke would become the Minister in charge of what would probably be an enlarged super-ministry with responsibility for labour, productivity and economic planning. Many see him as a rival to the present Labor party minister, Mr. Bill Hayden, although at this stage he is one of the three-man leadership team.

The current Labor party leadership has not forgotten the role which militant unions and leap-frogging pay claims played in compounding the economic problems of the last Labor Government. Labor's close relations with the union movement proved an albatross then and could do so again in the future.

It was in realisation of this fact that Mr. Hayden sought before the election to establish some form of "social contract" with the unions which, shades of Mr. George Brown, would pledge them to keep wage claims to non-inflationary levels in return for greater consultation over economic policy and measures to improve the living standards of the poorest families and weakest members of society. The initiative was received sceptically by unions and society at large.

Meanwhile, with the depar-

ture of Mr. Hawke the presidency of the ACTU falls to Mr. Cliff Dolan, a professional union apparatchik with little of Hawke's charisma. He is a strong supporter of the official union line which opposes uranium mining. This is a position which Mr. Hawke strongly opposes, fearing that it represents an electoral catastrophe for the Labour party and is, in any case, impossible to enforce.

The uranium mining ban reflects another aspect of Australian trade unionism—its deep suspicion of the multinational corporations, especially the foreign mining corporations which play such a large role in the Australian economy. It is an article of faith for many unionists, as well as Labor politicians and supporters, that Australia has been, is being and probably will continue to be "ripped off" unmercifully by

anonymous corporations based overseas who employ few people, extract allegedly extortionate profits and avoid tax, partly through collusion with Australia's own capitalist class and partly through sheer tax avoidance.

Under these circumstances many unionists feel themselves at odds with the multinationals and the system is that current Australian wage bargaining, based on bi-annual settlements of minimum wage levels by the Australian Conciliation and Arbitration Commission (ACAC), includes wage comparability among its many criteria for judging wage increases throughout the economy.

In this way, there is a constant risk that high wages extracted by highly skilled workers in a fast-developing sector become transmitted through the system into a generalised wage spiral. Over the last five years,

and more moderate union leaders have managed to convert this in practice into a selective campaign aimed at industries such as aluminium, which are exceptionally capital-intensive and for whom labour costs are virtually irrelevant.

The temptation will be to exploit this situation—especially as five years of wage restraint, coupled with a steadily rising direct and indirect tax burden on wage and salary earners, has created a strong pent-up pressure for higher wages and a share in the boom ahead.

A sustained boom would indeed create the conditions for higher living standards. But nothing is more likely to prevent it than massive wage demands at an early stage, increased labour unrest and stoppages at major construction sites involving multi-million dollar investments.

Anthony Robinson



Mr. Robert Hawke, flamboyant former leader of the Australian Council of Trade Unions, who stepped down earlier this month to enter federal politics

Farm exports set for a record despite drought

BUOYANT WORLD agricultural commodity prices have made the outlook for rural Australia reasonably bright in the past couple of years—and for probably at least another few years.

"Just as well," many Australian farmers would say as they face higher inflation and rising fuel prices at home and the possibility of higher interest rates later this year, and gradual upward movement of the exchange rate.

Despite a debilitating drought last summer, which is still affecting parts of eastern Australia, the Australian Bureau of Agricultural Economics estimates that Australian agricultural exports will reach record levels, in dollar terms, for the financial year which began on July 1, 1980.

Volume is expected to remain much the same as last year's levels, but higher prices should lead to a rise in export income of A\$500m to A\$9bn.

Gross value of total rural production is expected to rise to A\$12bn but because of rising costs and inflation, net value of production, in real terms, is expected by the bureau to fall by about 11 per cent on 1978-80 levels.

The Bureau says that while

this represents an erosion of the buoyant conditions of the past two years, there have been only five years since the early 1950s when real net value of agricultural production was higher.

The rural sector, although declining from its dominance in the 1950s, contributes 7 per cent of Gross National Product and accounts for around 45 per cent of export income—well ahead of minerals, at 30-35 per cent, and manufacturing at around 20 per cent.

Cereals and grains at A\$2.9bn were the biggest single revenue earner for Australia in 1979-80. Wool and meat vied with coal for second place as export income earner, at around A\$1.7bn each.

However, there is a growing feeling among farmers that this efficient and mainly export-oriented sector is being increasingly disadvantaged by Government policy for the sake of other sectors, including mining and manufacturing.

Mr. Geoff Miller, director of the Bureau of Agricultural Economics says there is no doubt that the rural sector

would grow if tariffs were reduced to ease some of the pressure on inflation, interest rates and the exchange rate.

"Agriculture is the forgotten sector," said Mr. Don Eckersley, president of the National Farmers' Federation, after the 1980-81 budget was brought down last month.

"Government assistance to agriculture continues to be pruned heavily, while assistance to mining and manufacturing is escalating rapidly," he said.

Government assistance to the rural sector this year is mainly for items such as research and promotion of primary products and some disease eradication programmes. Total assistance amounted to A\$167m which was down on last year's allocation of A\$194m and the 1978-79 level of A\$252m.

At the same time, direct assistance to mining and manufacturing has risen to A\$466m or by 177 per cent, in dollar terms, in two years. This does not take into account assistance to manufacturing in the form of tariffs and quotas.

Many farmers feel their vote is taken for granted by the ruling Liberal Party of Prime Minister Malcolm Fraser, him-

self a farmer, and its coalition partner, the National Country Party, which generally draws its voting strength from rural areas.

"The Government thinks farmers will never vote Labor, so they can go on squeezing the industry as much as they like," said one rural lobbyist.

Apart from double digit inflation which affects costs, farmers have been particularly bitter about the Government's policy of raising domestically-produced crude oil prices in line with rises by the Organisation of Petroleum Exporting countries (OPEC).

On average, fuel represents about ten per cent of farm costs—and more for grain producers.

Farmers argue that they are among the least able of all industry to convert to alternative energy sources because of their dependence on motor spirit for machinery. Rising oil prices also raise the cost of some fertiliser.

A number of experiments for farm production of fuel ethanol and methanol are under way, but obviously there is an opportunity cost in using land to grow crops for fuel production which could have grown cash crops.

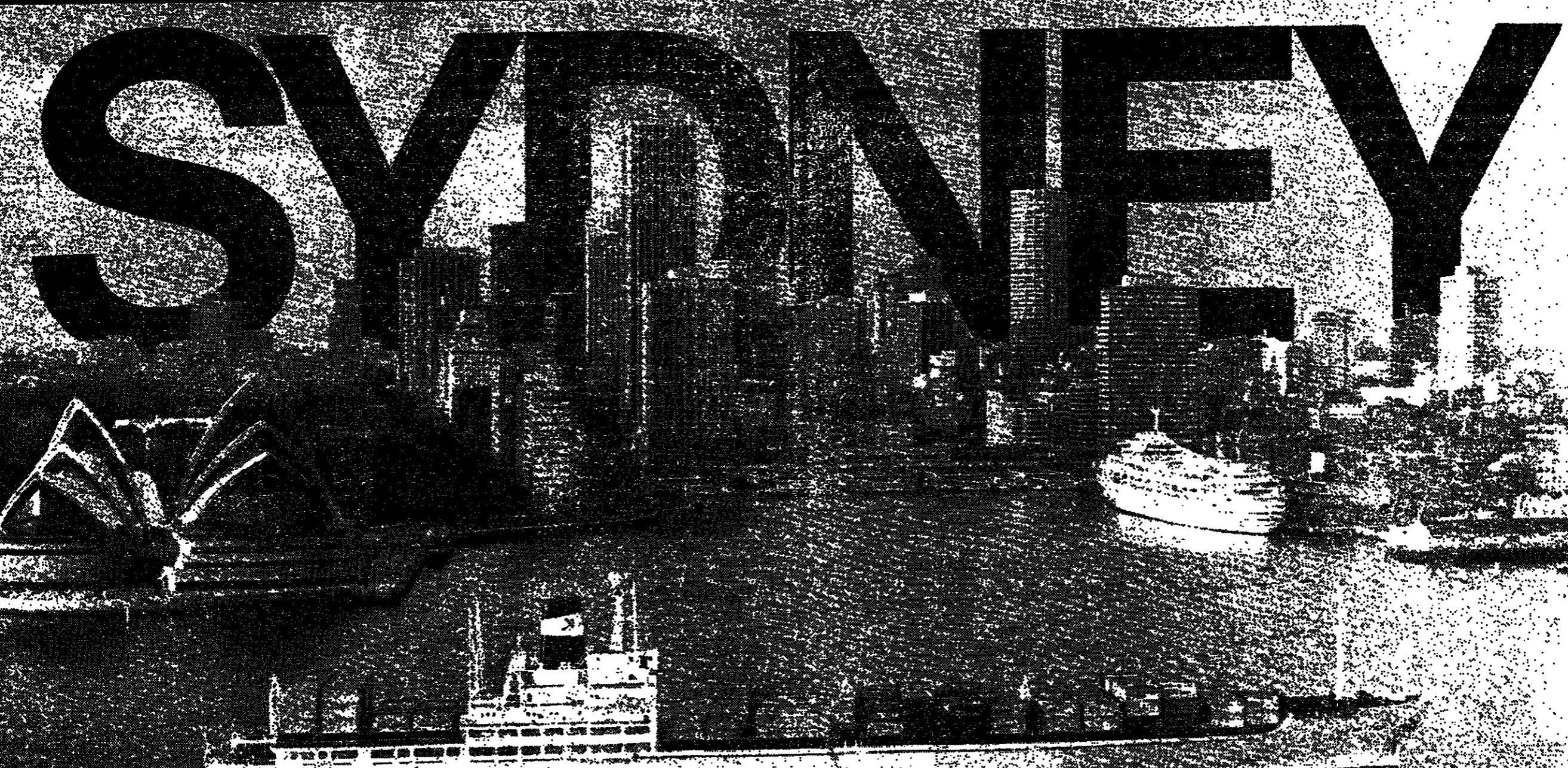
Increasing economies of scale as a crucial indicator of the Government's thinking on the whole question of protection for manufacturing industry.

The implications for farmers are that with the expected inflow of capital for mining development in the 1980s, combined with increased export income as mines start producing, coupled with restrictions on imports, there will be upward pressure on domestic inflation, interest rates and almost certainly the exchange rate—all of which hurt efficient as well as inefficient producers within the economy.

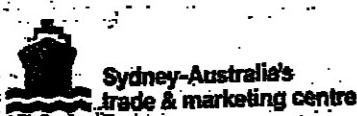
Mr. Eckersley said he was "staggered" that the Government, whose central plank of office was responsible economic management, could have capitulated so totally to sectional pleading and dismissed the long-term interests of the economy at large.

The analogy has been drawn between the Government's policy that the country must suffer substantial short-term costs because of longer-term objectives on oil prices and its unwillingness to apply the same logic to the question of protection.

Patricia Newby



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AUSTRALIA X

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GERMAN DEBT AND THE ELECTION

The shadow of the Weimar wheelbarrow

WHAT IS all this talk in West Germany about currency reform and state debt? Recent foreign visitors have put the question with genuine bafflement. After all, the Federal Republic is seen to have one of the world's best run economies and one of its most stable currencies. Yet talk of reform and debt conjures up visions of the hyperinflation of the Weimar Republic in the 1920s, when workers had to collect almost useless paper money wages twice a day in suitcases and wheelbarrows. Why then the current debate?

The most obvious answer is that West Germany is in the middle of a general election campaign, and that the Opposition is trying to put the Government in a corner over its handling of State finances. But if this were all, then surely the whole argument would vanish after polling day on October 5. In fact, the Germans are in the middle of an argument about the role of the State, public sector borrowing and inflation—which will not simply go away, however much the election has been a catalyst. And the way they resolve it has important implications for Germany's friends and allies.

It is safe to say that without the Weimar experience—and that of the 1948 currency reform—the Germans would not now be having the kind of debate which has emerged. It is not simply those who lived through both traumas who have become highly allergic to the smallest signs of inflation and financial mis-management by the state. Many Germans born after the Weimar era have gained a similar sensitivity from the experience of their parents. It would be absurd to suggest that anything similar to the central bank independent of

JONATHAN CARR in Bonn examines the current German debate about the growth of the state's debts. While they are not excessive measured against those of other countries, the German memory of the inflation during the Weimar Republic, makes debt a hot political issue.

in prospect in the Federal Republic. Quite apart from other things, the country has a central bank independent of Government, highly jealous of its autonomy and only too aware of the fate of its Weimar predecessor which saw "shortage of currency" as the country's main problem.

But there is a feeling of unease about developments which most other countries, for better or worse, accept fairly easily. The current level of inflation is "only" 5.5 per cent a year (and declining), but Germans are not impressed by the argument that things are worse elsewhere.

The country had a current account deficit last year for the first time for 15 years, and it will have one nearly three times as big this year. The Federal Government has been borrowing funds from (among others) the oil producing countries. There are good reasons why this is a sensible move just now—but many Germans nonetheless wonder why their country, above all, should be borrowing at all. It would be nonsense to see the Deutsche Mark as a chronically weak currency—but it is not the high flier it used to be, a benefit to German exporters but not to the millions of ordinary Germans taking foreign holidays.

These elements together tend

to create a feeling of disorientation—fertile soil for the opposition Christian Democrats (CDU) and Christian Social Union (CSU) to intensify attacks on what they feel to be the Government's spendthrift policies. The voters are being told by the CDU-CSU that the Social Democrat (SPD)-Liberal Free Democrat (FDP) government under Chancellor Helmut Schmidt incurs DM 5m (£1.17m) worth of new debts every hour and that total state indebtedness is now about DM 450bn—"meaning a burden of more than DM 7,000 on every citizen."

Further, the German Catholic bishops have stepped into the debate—to the great annoyance of the SPD-FDP—stressing that they see the question of state debt as a moral issue. Herr Schmidt complains that if this is the case, why could the bishops not raise the point directly in talks they have had with him during the last few years? The bishops stand was made clear in a letter read in most churches last Sunday and the argument about debt has become still more intense. The CDU-CSU insists that the Government is borrowing wildly and leaving much of the bill for future generations. It is also implied that if policies are not changed, the day will come when debts cannot be repaid

and a currency reform will become inevitable.

The Federal Government has pointed out, first, that it is to be blamed for spendthrift policies and excessive borrowing then a similar accusation should be levelled at the provincial states (the *Landes*) and the municipalities. While the Bonn Government's debts rose from DM 45.4bn in 1970 to DM 207.4bn last year, those of the *Landes* rose from DM 48.5bn to DM 138.6bn and those of the municipalities from DM 45.6bn to DM 87.9bn. A majority of the *Landes* have CDU-CSU governments and they hold the sway in the Bundesrat—the upper house of the Bonn Parliament whose agreement is essential on tax policy.

Further, Bonn argues that it

comes very well out of an international comparison—on the basis of relating public sector debt to gross national product (see table). It is added that the West German debt by this measurement remains relatively small—even though most

Deficit spending after oil crisis

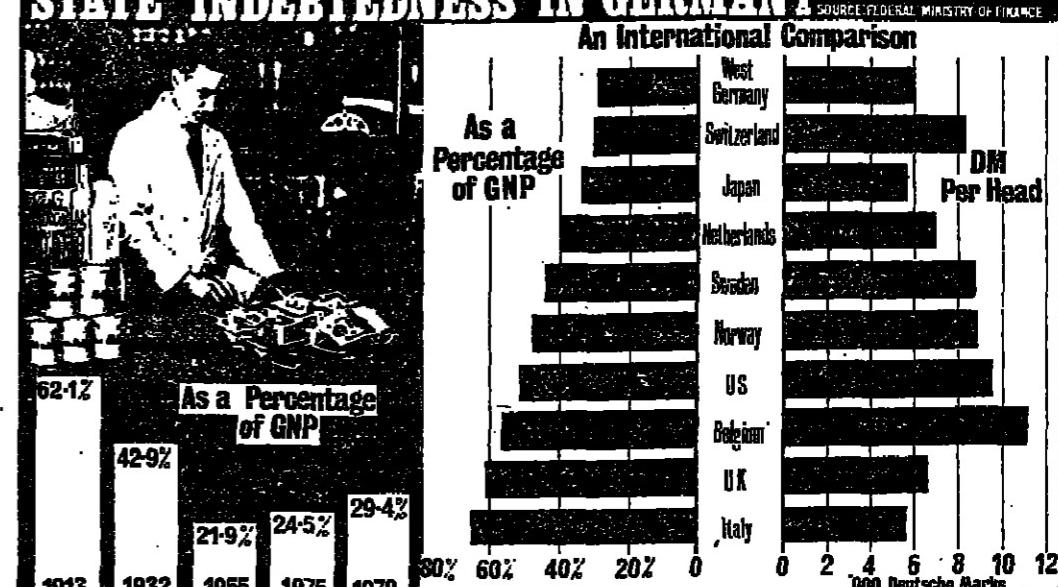
other countries have higher inflation rates which act to depress their debt shares in this particular "league table."

There is much in these arguments—but the matter is more complex than that: indeed so complicated that it does not lend itself to the kind of analysis common during an election campaign. For one thing the international comparison says nothing about the historical basis for the debt in each country. In Britain, for example, the size of the debt remains affected by war loans since 1975. It

is now going to pay the interest on existing debts. Unless there is some marked change in the next few years, the state could well be using all its new credit to make interest payments. That is still a very, very long way from suggesting that a currency reform is around the corner. But it will markedly reduce budgetary room for manoeuvre; and there is good reason to feel that while this situation might be tolerable for other countries, the Germans will not be content to see things go that far.

How did the Germans get into this position? One answer is the deficit spending to help boost the economy in the years after the first oil crisis—a total of DM 35bn in tax benefits and DM 35bn in road-building, energy-investment and other programmes since 1975. It

STATE INDEBTEDNESS IN GERMANY



A shopkeeper (left) with a tea-chest full of banknotes during the Weimar inflation

could be argued that the face of it this criticism Germans spent too much, but applies better to many other countries than to the Federal Republic—but, for reasons explained, that kind of rumour does not cut a lot of ice with West Germans.

In a nutshell this means that more than half the new credit

being taken up by the state is now going to pay the interest on existing debts. Unless there is some marked change in the next few years, the state could well be using all its new credit to make interest payments. That is still a very, very long way from suggesting that a currency reform is around the corner. But it will markedly reduce budgetary room for manoeuvre; and there is good reason to feel that while this situation might be tolerable for other countries, the Germans will not be content to see things go that far.

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The practical conclusion is that the moment the election is over—and regardless of which side wins—the red pencils will be out. The word is that the Government is heading for one of the toughest budgetary savings campaigns ever, and no item will be considered exempt in advance. That would have refused to make the kind of concession which Herr Schmidt produced at the Bonn summit conference in July 1978.

The opposition CDU-CSU says it would have made a better job of all this. But it has also made proposals for costly tax-cutting and other schemes over the years, and it is hardly certain that had it been in office, it would have refused to make the kind of concession which Herr Schmidt produced at the Bonn summit conference in July 1978.

The broader answer may be that the Germans have been living beyond their means—that the state is providing more services than its citizens are willing or able to pay for. On

To the Germans the Weimar inflation was a traumatic experience. To a foreign observer like the British Ambassador in Berlin, hyper-inflation had its diverting side. He calculated in 1923 with some apparent pleasure that for his one pound Sterling he could obtain as many Reichsmarks as there had been seconds since the birth of Christ. But for Germans who saw prices rise by the hour, whose savings of years were destroyed in weeks, the world became horrifying and baffling in equal measure. Why was it happening, one woman asked a baker whose rolls cost more in the afternoon than in the morning? "He didn't know... his customers didn't know... It had somehow to do with the dollar, somehow to do with the stock exchange..."

Letters to the Editor

Rates as a cost of production

From the County Treasurer of Warwickshire

Sir.—On several occasions recently the payment of rates by commerce and industry has been related to profitability. In reporting Professor Foster (September 15) you raise the issue yet again.

While rates are, without argument, a tax, they are not a tax on profits but on the occupation of property. Rates are, therefore, a cost of production and as such any increase should more properly be compared with other costs of production or operation in any examination of their burden.

The practical effect of reducing the rate burden would of course be to increase the charge to Corporation Tax for those who actually bear tax—some what dubious benefit!

Professor Foster's reasoning takes as datum the decline in the real profitability of industry but that is, in itself, a variable, the reasons for which are endlessly documented. It is compounded by rising costs—all costs—failure to achieve higher productivity and to maintain or expand markets and price restraint in the past among other factors. One detects a search for a whipping-boy in the selection of rates as a major cause.

Naturally, I support the view that domestic ratepayers receive good value for money but neither in their case nor for industry and commerce can one escape the fact that rates are a tax and not a payment for services rendered. However, just as the incidence of the rate burden has been shifted from domestic ratepayers by the political decision to introduce domestic rate relief (though the real value of that relief has not been maintained over the past six years) it could be changed again.

Incidentally, I know of no serious attempt to assess what benefits industry does derive from services provided by local government. Such an analysis might demonstrate that the benefits are greater than is generally assumed.

The fact remains that however successful local authorities may be in reducing their spending in response to Government requests—and their past record has been outstanding—the remaining expenditure must be met either from direct charges, if that were to become a generally acceptable basis or from taxation.

If industry and commerce are relieved of rates, an increased burden will fall on personal taxation. Will such a shift then generate the same pressure to relate tax payments to services provided by central government as is currently being applied to the payment of local authority rates?

R. Hunt
County Treasurer,
P.O. Box 3, Shire Hall,
Warwick.

Don't blame the banks

From Mr. W. Grey

Sir.—The charges Clare Macdonald (September 17) has seen fit to level against the banking fraternity are really addressed to the wrong quarter. Whether she likes it or not, banks are in the business of lending—not issuing—money, and any blame for overshooting of the money supply target attaches not to them but to the monetary authorities, whoever they may be. They should not be tarred with the same brush.

Her not altogether original proposal of a permanent Monetary Commission directly responsible to Parliament, if not the Treasury, as "the sole source of issue" is equally wide of the mark when, in fact, the Bank of England is charged with that job already.

If the latter has been making a hash of it, what guarantee is there that another, let alone a third, body would necessarily do any better?

Perhaps the real fault lies in the bank's constitution—in its being the creature of, and hence unduly subservient to, the Government and Parliament of the day rather than, like the German Bundesbank, being left to discharge its appointed task with proper accountability yet the minimum of political interference.

Could the Government, which of course bears the final responsibility, address itself to that question?

W. Grey,
12, Arden Road,
London, N3

Civil Service pensions

From the Secretary.

Sir.—Mr. Bryant (Sept. 17) is being most unfair when he accuses me of misleading the public. My letter (Sept. 18) made it perfectly clear that the Civil Service pension scheme is a "pay as you go" scheme and that the contribution of serving civil servants to their retired colleagues' pensions only relates to current expenditure.

If any misleading is being done, it is by those (like the Centre for Policy Studies) who apply the different criteria concerning funded schemes to non-funded "pay as you go" schemes like the Civil Service. The whole basis of the spurious claim that civil servants don't pay enough for their pensions collapses if this misleading (and here I fully agree with Mr. Bryant)

ICI and the pay award

From Mr. S. Newton

Sir.—J. L. Humphreys (Sept. 5) should make sure of his information. ICI paid 3 per cent interim award in February 1980.

With a further 16 per cent from June 1980. Of this, some 7 per cent had been earned by the staff in improved productivity.

Thus the true pay award was

worth around 12 per cent—not an excessive settlement by any means, and certainly well below the increase in cost-of-living for the year.

This award should be cited as an example of what can be achieved by proper and full negotiation between a sensible (and sensitive) Company and its well-informed and realistic employees. The latter are kept fully informed of most business matters, including the unhappy state of the economy and its effect on Company finances.

S. Newton

32, Kenton Close, Hartburn,

Stockton-on-Tees, Cleveland.

Our crumbling buildings

From Mr. P. A. Kremer

Sir.—Yes, Mr. Mason (letter September 10) it is a sorry reflection on our construction processes" that buildings fall

to bits.

But, the "process" is the thing at fault not the "construction". It is the process which enables the blame for failure to be shifted from one party to another until nine times out of ten it finishes where it began: with the customer putting his hand in his pocket to settle another bill.

Of course, the Boycott, Gooch and Botham combination had makings of becoming world beaters, but then that was before the captaincy was given to Botham, with such unfortunate results.

Alas, in persisting with Botham for the West Indies tour the England selectors show a total lack of ideas and what is worse, refuse to learn from recent history.

J. M. Pereira

P.O. Box 5725, Karachi.

This England cricket team, whose performance this season I have followed, through the radio and in the writing of Trevor Bailey in your newspaper, with much interest and great expectations, failed their followers because, candidly, they have none.

None to match the authority of Chappell, the brilliance of Richards: the craftsmanship of Gavaskar and the dexterity of Mianand, with the bat. None to match the enthusiasm of Kapil Dev, the ferocity of Lillee, the guile of Bedi and the hostility of Holding, with the ball.

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J. M. Pereira

P.O. Box 5725, Karachi.

GENERAL

European Parliament's Committee on External Economic Relations hears evidence from Commonwealth countries on EEC trade preferences. Cambridge.

Sir Derek Ezra, National Coal Board chairman, and Mr. G. A. W. Blackman, Shell Transport and Trading chairman are among speakers at energy conference, Bournemouth.

P. A. Kremer, Marketing Director, Lesser Design and Build, The Lesser Building, Staines Road, Hounslow, Middx.

The cash or plastic decision

From Mr. John Lidstone

Sir.—The recently published report of the Monopolies Commission on credit cards and the issues it tackles, reminds me of a conversation I overheard. I was waiting to settle my bill at the end of a stay at a motel at Leura some 60 miles from Sydney.

The Australian in front of me asked for his hotel account. Then taking out his wallet he said to the cashier:

"I am quite happy to settle my bill paying by cash so long as you give me a 5 per cent discount. If not then I will settle by card." To which the cashier replied: "Sorry sir, I am not allowed to give any discounts."

The bill was settled by card and the hotel ended up paying a discount to the card company.

John Lidstone, Deputy Managing Director, Marketing Improvements, 17, Ulster Terrace, London, NW1

Our cricket failures

From Mr. J. M. Pereira

Sir.—Contrary to what has been, is being, and will be said about cricket being a team game and also about test match victories resulting

Tarmac expects good result

THE EXPECTED improvement in 1980 first half results of Tarmac roadstone and civil engineering group, emerges as a rise in pre-tax profits from £14.25m. compared with £13.04m.

Due to current economic conditions, the board has taken a cautious view of the rest of the year, but nevertheless they expect pre-tax profits to show an improvement over the record £18.03m of 1979.

Stated earnings per share in the first half are up from 7.45p to 14.63p and the interim dividend is lifted from 5p to 5.5p—the final last year was 8.75p.

Pre-tax profit is struck after interest of £5.1m against £2.85m, but includes an exceptional profit of £1.82m. arising from the disposal of the shareholding in

HIGHLIGHTS

Conflicting profit news emerged from the corporate sector yesterday. Lex looks at the further decline at Fisons where interest costs are proving a severe problem and, although the dividend has been maintained, the outlook continues to be difficult. At Tarmac on the other hand profits are well up in the first half and even though conditions are tough the full year should also show an advance. Lex takes the opportunity of the publication of the second quarter national income figures to look at aggregate profits trends in the company sector. Profits seem to be holding up better than some of the economic forecasters had been predicting.

Viking Oil

The quarry products' division's results improved significantly, helped by the good weather in the first few months. The building products side also improved substantially as did the properties and industrial divisions, the latter benefiting from the sale of Viking Oil shares.

The directors say conditions in both the UK and overseas con-

tinued markets continue to be difficult and the group's two contracting divisions performed generally in line with the first half of last year.

The recession in the UK has reduced demand for private houses and this, coupled with high interest rates, has adversely affected the performance of the housing division in the first six months.

Tax charge in the first half is £5.42m (£3.37m) leaving net profits at £8.14m compared with £8.12m.

Minorities take £7,000 (nil). The preference dividend again absorbs £5,000 and ordinary dividends take £3.07m, against £2.76m. An amount of £5.05m, compared with £1.35m is retained.

Lex Back Page

Ransomes' profits ahead midway

TURNOVER OF Ransomes Sims and Jefferies increased from £19.75m to £21.45m for the six months to June 28, 1980. Pre-tax profits of the machinery manufacturer rose from £1.21m to £1.66m after interest charges of £1.55m, compared with £0.80m last time. Last year there was no associates' contribution of £23.000.

Directors say second half results will be affected by the significantly more difficult trading conditions recently due to the effects of the recession and the unfavourable trends of costs in the UK relative to those of foreign competitors. Action has been initiated in response to this situation.

However, they add, it is still possible that for the year as a whole some improvement on the previous year may be achieved.

Tax this time took £412,000 (£240,000) and there was an extraordinary debit of £264,000 against a credit in the same period last year of £55,000. Stated

earnings per £1 share were better at 22.3p (17.4p) and the interim dividend is held at 3.14p net. Last year total dividends of 11.14p were paid from pre-tax profits of £2.86m.

The first half improvement, the Board says, has been mainly due to growth in sales of professional grass cutting machinery products.

The company has reached an agreement with the privately-owned Hamech Holding Company

—for many years the exclusive distributors of Ransomes electric fork lift trucks for Great Britain—for them to acquire the design rights for these trucks and the responsibility for worldwide distribution. They will take over the assembly and finishing but Ransomes will continue to manufacture component parts.

Hamech will acquire the design rights together with the related stock-in-trade for £21m, the approximate book value of such stock. Approximately one-third of the stock will be transferred to, and payment will be made by, Hamech within the next

four months, a further one-third no later than March 31 next year, and the balance during, but not later than, the next 2½ years.

To assist Hamech in financing the transaction, the first £250,000 received by Ransomes will be applied in the subscription of £50,000 £1 redeemable cumulative 12½ per cent preference shares in Hamech final.

These shares will be redeemed at premium over par in seven equal annual instalments of £10,000 commencing in December 1985. The balance of the consideration will be applied in the reduction of Ransomes' short term borrowings.

Directors say the current depressed rate of order intake, particularly on the farm machinery side, will make necessary a 20 per cent reduction in production programmes from those originally planned.

Provision has been made in the half year figures under extraordinary items for all the expenditure expected to arise in carrying out closures and reorganisation.

• comment

A pleasing set of first-half figures from RSJ—but the bearish second-half indications were sufficient to bring the shares down 3p to 160p, where they yield a little over 10 per cent assuming a maintained final. The Wisconsin acquisition chipped in around 10 per cent of profits this time round, while professional grass cutting equipment came along well. It is hoped that the move to Ipswich will sort out Dorman's remaining problems, giving some profits headroom to help offset the squeeze which local authority spending cuts must mean on grass-cutting sales. The dull spot is interest charges, with borrowings still around the year end level of £16.7m and group gearing nudging 70 per cent. The signs point up for profits around last year's level, indicating a fully-taxed p/e around 6.6.

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Estates & General sees less for year

AN INCREASE of £9,000 to £478,000 in pre-tax profits is reported by Estates and General Investments for the six months to June 30, 1980, but in view of the current economic climate and high interest rates, the board does not expect results for the year to be as favourable as last year's pre-tax profits of £6.35m.

After tax down from £245,000 to £195,000, stated earnings per 20p share are 1.57p (1.26p), and the interim dividend is unchanged at 0.55p—last year's total was 1.42p.

Turnover in the first half was down from £1.89m to £1.78m.

The pre-tax figure was struck after interest substantially higher at £572,000 compared with £388,000, but includes a surplus on disposal of properties amounting to £225,000 (£4,000).

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£0.8m downturn at Telefusion

AFTER TRADING losses of £586,000 in respect of unprofitable subsidiaries closed during the second half of the year to April 28, 1980, and also suffering from rising costs and falling retail income, taxable profits of Telefusion finished the 12 months well down from £1.75m to £0.95m. At mid-year the profit shortfall was from £1.15m to £0.91m.

Mainly relating to the UK manufacturing company, Teleng, extraordinary expenditure on closures amounted to £1.5m. This formed the bulk of total extraordinary debits of £1.86m (£49,000 credit) and left this radio, and TV renting and retail group with a year's attributable loss of £889,000 (£1.49m profit). The directors say that since the year end expenditure has been reviewed and major economies have resulted in considerably reducing the break-even point of the Trident retail division.

These economy measures, combined with the elimination of loss-making subsidiaries and the continuing profitability of the company's main activity of television and video rental, will make possible an improving profit trend for the current year as a whole.

Yearly earnings per 5p share are shown to have fallen from 3.08p to 2.08p and the final dividend is 0.83p (0.8335p) for a 1.5p (1.50185p) net total, costing £686,664 (£61,702).

Comment

Television makes good money from TV rental—£3m pre-tax last year against £2.7m—unfortunately most of it goes in propelling up loss making retail and manufacturing operations.

BLACKWOOD HODGE (NIGERIA)

Pre-tax profits of Blackwood Hodge (Nigeria), an associate company of Blackwood Hodge, the UK earthmoving equipment, sales and service group, rose from Naira 922,258 to Naira 1,53m in the half-year to June 30, 1980.

After tax up from Naira 433,745 to Naira 736,937, stated earnings per share are 7.3 kobo (4.5 kobo).

Shake-up at Allied Breweries' Dutch subsidiary Skol

Skol Brouwerijen, the Dutch subsidiary of the UK Allied Breweries Group, plans to make sweeping management changes and a far-reaching reorganisation aimed at bringing the loss-making company back into profit.

The rapid expansion of the company's facilities in the Netherlands has come at a time of a slow down in the rate of growth of beer consumption. Only 65 per cent of Skol's capacity is currently in use according to a report by outside management consultants.

Skol should be able to return to profits within two to three years, the report concluded.

After steady growth in both sales and profits between 1970

Beatson falls and reduces interim

Taxable profits of Beatson Clark and Company, glass container manufacturer, dropped from £780,000 to £665,000 in the first half of 1980 despite sales increasing during the period to £12.21m, compared with £10.47m.

The fall is in line with the chairman's prediction last May when he said that results for the first half of 1980 would be lower than those for the corresponding period following a lower level of activity during the first four months of the current year and increases in price for both raw materials.

The directors are reducing the interim dividend from 3p to 2p net to preserve resources. Last time a final of 5.4p was paid from pre-tax profits down from 5.23p to 5.18p.

Depreciation was higher during the six months at £76,000 (£76,000) but the interest charge was reduced from £12,000 to £5,600.

There was a tax charge of £138,000 compared with a credit of £185,000, leaving earnings per 25p share down from 20p to 12p. Retained profit showed a drop from £795,000 to £14,000.

The directors say that trading was materially affected during the period by continuous weakness in demand, further substantial increases in major costs and lower level of output.

Demand continues to weak but they expect that sales income will benefit from a price increase in October.

Davenport Knitwear expands

DUE MAINLY to substantially increased finance charges, group pre-tax profits of Fisons were down 29 per cent in the first half of 1980 from £7.5m to £5.3m. Finance charge rose by £2.4m to £41.88m and £6.4m.

Sir George Burton, chairman, assures shareholders that vigorous management action will continue to be taken to reduce working capital to cut costs and to put into effect such other measures as are necessary to ensure the business is soundly based for future growth.

The group is still severely affected by the recession in the UK, other parts of the EEC and North America and the directors say that as long as the high cost of money and sterling continues, group earnings will continue to be affected.

However, the interim is maintained at 6.9p (6.896p)—the total last year was 16.45p from pre-tax profit of £17.34m. Stated earnings per share in the first half were slightly up, margins once again being adversely affected by the strength of sterling and the difficulty of obtaining adequate price increases to offset inflation.

Activity sales and profits contributions show agrochemicals £41.1m and £1.03m (£42.77m and £477,000); fertilisers, £98.29m and £1.1m (£92.16m and £713,000); pharmaceuticals, £43.89m and £6.51m

operations was £11.1m compared with £10.9m in the first half of 1979.

Sir George Burton, chairman, assures shareholders that vigorous management action will continue to be taken to reduce working capital to cut costs and to put into effect such other measures as are necessary to ensure the business is soundly based for future growth.

A total of £6.8m was spent on research and development in agrochemicals and pharmaceuticals in the first six months, against £5.9m in the same period last year.

The group division to experience a decline in earnings was scientific equipment, which was severely affected by the cutback in UK public expenditure.

In horticulture, a 50 per cent participation has been initiated in Canada with Western Peat

(£41.88m and £6.4m); scientific equipment, £29.36m and £1.53m (£27.16m and £2.84m); horticulture, £12.52m and £1.07m (£11.07m and £462,000).

Before interest charges, profits of agricultural, fertilisers and horticulture were higher than in the previous year, in which operations were severely disrupted by bad weather and external industrial disputes.

Pharmaceutical profits were slightly up, margins once again being adversely affected by the strength of sterling and the difficulty of obtaining adequate price increases to offset inflation.

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In horticulture, a 50 per cent participation has been initiated in Canada with Western Peat

Corporation, the leading peat producer and marketer in North America. This will provide Fisons with an excellent opportunity for entry into the large North American horticulture market, the directors say.

Fisons and the Fujisawa Pharmaceutical Company have recently announced the establishment of a joint venture company, Fujisawa-Fisons KK, with offices in Osaka, Japan, to sell and distribute Fisons pharmaceutical products in Japan.

Six months
Trading profit £10,188 £9,943
Associates 916 916
Dividend profit 11,100 10,287
Finance charges 5,799 3,404
Profit before tax 5,301 7,493
Tax 2,339 2,000
Minorities 32 38
Attributable 2,820 5,455

Lex. Back Page

Bridgewater Estates increases

WITH GROSS income higher at £164,536, compared with £168,141, Bridgewater Estates, property development group, increased pre-tax profits from £354,888 to £467,885 for the first half of 1980.

Tax for the period took £16,919 (£16,754) leaving the net balance £50,582 higher at £250,716.

The net interim dividend is maintained at 4.5p per 50p share—last year's total was 16p on taxable profits of £1.26m.

The directors say the recession makes it impossible to give a realistic forecast for this year's outcome.

Estates Property over £2m

Pre-tax profits of Estates Property Investment Company rose from £1.39m to £2.00m in the year to April 30, 1980. A rise from £855,000 to £914,000 was reported at the interim stage.

Gross rents received for the year amounted to £3.17m against £2.8m last time.

The pre-tax figure is after interest charges of £887,000 compared with £834,000. Tax was up from £470,000 to £688,000 and stated earnings per 25p share were 7p (4.6p). The final dividend is raised from 2.75p to 3.75p for a net total of 6.25p (4.25p).

Garnar Scotblair in the red

INCREASINGLY difficult trading conditions has caused Garnar Scotblair, tanner and leather manufacturer, to incur a loss of £345,000 for the half year to July 31, 1980, compared with a profit of £703,000 last year.

However, the interim dividend is being held at 2.4p net per 25p share—last year, a total of 8.25p was paid from taxable profit of £1.37m.

The directors comment that the economic recession, combined with high interest rates, has

reduced demand from home customers, while the strong

bound has adversely affected competitiveness in export markets.

The sector of the group's business which has suffered most is the hide markets, where prices have continued the unprecedented collapse which was evident in the previous trading period and have since fallen a further 50 per cent.

Measures, in addition to those already announced, are in hand and these will still further lessen the company's involvement in hide dealing.

Although a reasonable level of production has been achieved

in the tanneries, a programme of factory rationalisation has been instituted, which will produce substantial cost savings.

The company is poised to take full advantage of an upturn in the market and to expand its business as confidence returns, the directors state.

No tax is payable for the half year, against a charge of £285,000 in the same period of 1979. The loss attributable to ordinary holders was £350,000 (£136,000 profit), while the interim dividend again cost £126,000.

GOLD FIELDS OF SOUTH AFRICA LIMITED

(Incorporated in the Republic of South Africa)

Salient features of the Review by the Chairman, Mr. A. Louw, for the year ended 30 June 1980

	1979 R Million	1980 R Million
61.0	124.0	
7.3	1.5	
(1.6)	(0.1)	
66.7	125.4	
 Cents per share		
409	768	
225	400	
5,748	11,636	
 Earnings		
Dividends		
Net assets as valued		

The earnings of GFSA and its subsidiaries increased by 88% to R125.4 million, equivalent to 768 cents per share. This level of earnings was achieved primarily as a result of income from investments more than doubling to R124 million which, in turn, was due mainly to the very substantial increase in income from gold mining investments which comprise some 86% of group assets and provide 88% of group income.

Net assets at 30 June 1980 were valued at R1 899 million equivalent to 11,636 cents per share. Since the company's financial year-end there has been a further material improvement in the market prices of the listed shares in which the group is invested and on 3 September 1980 net assets were valued at R2 342 million, equivalent to 14,352 cents per share.

Gold

Each of the gold mines administered by GFSA achieved record profits for the year to June 1980, and the aggregate gross profits of these mines more than doubled to R1 545 million. This considerable improvement in profits was due mainly to the substantially higher average price received for gold which increased by 93% from R6 293 to R12 170 per kilogram and resulted in working revenue increasing to more than R1 920 million. Although an increased tonnage was milled it was at a lower grade and so aggregate gold produced and sold was lower.

The scale of operations increased at most mines during the year but inflation took its toll and working expenditure increased by 18% to R419 million although the increase of some 10% in average unit costs to R32.70 per ton milled was lower than the general level of inflation which obtained in the Republic during the same period. Group mines East Driefontein, Kloof and West Driefontein all produced gold at a lower cost per kilogram than any other mine in the South African gold mining industry for the year to June 1980.

The main feature of the gold market in 1979 and the early part of 1980 was the dramatic movement in the price of gold. This caused considerable difficulties for fabricators, particularly the jewellery industry, and it is estimated that in the 1979 calendar year, demand for fabrication fell substantially whereas net private bullion purchases for hoarding and investment purposes more than doubled. Volatile gold price movements are expected to continue to be a feature of the gold market for the foreseeable future.

Exploration

GFSA's exploration programme has intensified the search for new mining projects and is currently concentrating on gold, tin, coal and uranium targets. Our estimates indicate that a greater amount will be spent on drilling and prospecting during the current financial year than the R4 million spent during the year to June 1980.

Outlook

The total dividends for the year to 30 June 1981 will depend on the earnings of GFSA during the year which will in turn, once again, largely depend on the average gold price received by the gold mines and the rate of escalation of working costs. If the rate of increase in the gold price exceeds that for working costs, lower grade ores will be mined which will result in lower gold production in the short term, but extended lives for the mines in the long term. The mining of lower grade ores will require expenditure on development of the extended reserves as well as provision for improved environmental facilities.

If the prevailing conditions in regard to the gold price and cost structures are maintained for the balance of the financial year, it can be expected that GFSA's earnings and dividends will show a further, but more modest, improvement.

My retirement—Chairman designate

As I shall shortly reach the retirement age for executive directors, it was announced earlier this year that I would relinquish my executive responsibilities on 30 November 1980, although I would continue as a director of GFSA in a non-executive capacity.

At the same time it was announced that Mr. R. A. Plumbridge had been designated by the board to succeed me as chairman and chief executive officer from 1 December 1980.

I have indeed been fortunate in having been chairman for nearly fifteen years during a period of phenomenal growth in GFSA's fortunes.

During the past decade earnings have increased elevenfold, dividends more than eightfold and net assets more than fivefold. For me to have been closely associated as chairman with the evolution of the group as it is today has been a happy experience.

GOLD FIELDS OF SOUTH AFRICA LIMITED—CHAIRMAN'S REVIEW 1980

The full text of this review is available on application to Gold Fields of South Africa Limited, c/o Close Registrars Limited, Arthur House, 803 High Road, Leyton, London E10 7AA, England. Please complete and post this coupon.

Name _____
Address _____

European Ferries Limited

Interim Report for the 6 months ended 30 June 1980

Group Turnover

1980 £'000	1979 £'000
79,107	72,458

Group Operating Profit (Unaudited)

1,386	3,406
865	622
1,494	2,676
3,745	6,704

MINING NEWS

Australian coal group hit by labour unrest

BY KENNETH MARSTON, MINING EDITOR

THE New South Wales coal group, Coal and Allied Industries (CAIL), has suffered a slump in earnings for the year to June 30, mainly as a result of labour turnout and lower product prices, but it is pressing on with a big expansion programme, reports James Forth from Sydney.

Earnings for the past 12 months have plunged to A\$1.8m (£884,000) from A\$12.6m. The Australian group actually incurred a loss on trading but this was offset by dividend income of A\$2.65m. Almost 20 per cent of the group's possible working days were lost as a result of industrial action.

Since the close of the year the industrial scene has been reasonably stable, but difficulties are still being experienced in maintaining and expanding outputs at some mines because of a shortage of labour arising from the union's policy of closing their books to new entrants.

The Hunter Valley No. 1 mine, which has reserves of 55m tonnes of coal, was successfully commissioned during the year at an annual rate of 1.5m tonnes of coal.

The second stage of development, to an annual output of 4.5m tonnes has been approved at an estimated total cost of A\$102m. A rights issue to raise A\$39.2m is planned as part of the funding.

The issue will be on the basis of one new share for every four held at an issue price of A\$11.50 (565p).

In addition (in the No. 1 mine, CAIL is working on planning for the Hunter Valley No. 2

open-cut mine to the south, which has reserves of 350m tonnes.

Sales commitments indicate that output from the mine would probably be required within the next four to five years.

Lower prices for soft coking coal sales to Japan also affected CAIL's results.

ROUND-UP

The retiring chairman of Gold Fields of South Africa, Mr. Adrian Louw—his successor is to be Mr. Robin Plumbridge—says that at September 3 net assets of GFSIA (in which Consolidated Gold Fields has a stake of 46 per cent) was R2.21b (£1.3bn) equal to R145.52 (£80) per share. The latter were £461 in yesterday's booming gold share market. Providing present gold price-mining cost levels are maintained, GFSIA expects earnings and dividends to show "a further, but more modest, improvement" in the current year.

The value of Israel's exports of polished gem diamonds continues to run ahead of the 1979 levels, according to our Tel Aviv correspondent. The total for the first eight months of this year amounts to US\$911m (£570m) compared with \$738m in the same period of last year. It is now estimated that the full total for 1980 will be around \$1.5bn. Last week the Israeli Diamond Exchange opened its new wing in Ramat Gan on the outskirts of Tel Aviv. More than 650 firms

have offices in the 28-storey building.

An analyst's view of Inco

AT LEAST one prominent Canadian stockbroking firm believes that Inco's problems have been thoroughly discounted "by the relatively low valuation accorded the shares in the stock market." This from Mr. Patrick J. Mars, a mining analyst and president of Alfred Brunting of Toronto.

He regards the nickel plant as a recovery candidate. However, based on what he considers the relatively poor outlook for the next few quarters, there's no urgency to establish positions. But viewed over an 18-month time frame, he considers the shares have the potential to appreciate to the C\$40 level. They are currently around C\$30.

Mr. Mars says that Inco's Canadian nickel facilities are still the lowest cost source of nickel in the world even after factoring in the costs associated with meeting the increasingly stringent pollution control standards.

The company should eventually benefit from the decision to build a hydro-electric facility at the Indonesian complex, thereby reducing the need for oil and resulting in lower costs than for most other lateritic projects. Improving nickel markets and higher prices are forecast for 1982, while Inco is its own largest customer for nickel.

Redemption Notice

Electricity Supply Commission (South Africa)

10 1/4% Guaranteed Bonds Due 1983

NOTICE IS HEREBY GIVEN, pursuant to the Fiscal Agency Agreement dated as of October 15, 1975, under which the above described Bonds were issued, that Citibank, N.A., as Fiscal Agent, has selected for redemption on October 15, 1980 \$5,500,000 principal amount of said Bonds at the redemption price of 100% of the principal amount thereof, together with accrued interest to October 15, 1980. The serial numbers of the Bonds selected for redemption are as follows:

BOND NUMBERS

7 1239 2467 6102 8068 10030	T1005 11240 12838 14011	15987 20386 21035	21741 22485 23035	24681 25485 27037	27582 28611 29223	29722 30383
12 1237 2475 6107 8071 10032	T1107 11245 12845 14016	15987 20405 21042	21747 22473 23110	24697 25490 27038	27583 28612 29224	29723 30384
13 1238 2476 6108 8072 10033	T1108 11246 12846 14017	15988 20406 21043	21748 22474 23111	24698 25491 27039	27584 28613 29225	29724 30385
14 1239 2477 6109 8073 10034	T1109 11247 12847 14018	15989 20407 21044	21749 22475 23112	24699 25492 27040	27585 28614 29226	29725 30386
15 1240 2478 6110 8074 10035	T1110 11248 12848 14019	15990 20408 21045	21750 22476 23113	24700 25493 27041	27586 28615 29227	29726 30387
16 1241 2479 6111 8075 10036	T1111 11249 12849 14020	15991 20409 21046	21751 22477 23114	24701 25494 27042	27587 28616 29228	29727 30388
17 1242 2480 6112 8076 10037	T1112 11250 12850 14021	15992 20410 21047	21752 22478 23115	24702 25495 27043	27588 28617 29229	29728 30389
18 1243 2481 6113 8077 10038	T1113 11251 12851 14022	15993 20411 21048	21753 22479 23116	24703 25496 27044	27589 28618 29230	29729 30390
19 1244 2482 6114 8078 10039	T1114 11252 12852 14023	15994 20412 21049	21754 22480 23117	24704 25497 27045	27590 28619 29231	29730 30391
20 1245 2483 6115 8079 10040	T1115 11253 12853 14024	15995 20413 21050	21755 22481 23118	24705 25498 27046	27591 28620 29232	29731 30392
21 1246 2484 6116 8080 10041	T1116 11254 12854 14025	15996 20414 21051	21756 22482 23119	24706 25499 27047	27592 28621 29233	29732 30393
22 1247 2485 6117 8081 10042	T1117 11255 12855 14026	15997 20415 21052	21757 22483 23120	24707 25500 27048	27593 28622 29234	29733 30394
23 1248 2486 6118 8082 10043	T1118 11256 12856 14027	15998 20416 21053	21758 22484 23121	24708 25501 27049	27594 28623 29235	29734 30395
24 1249 2487 6119 8083 10044	T1119 11257 12857 14028	15999 20417 21054	21759 22485 23122	24709 25502 27050	27595 28624 29236	29735 30396
25 1250 2488 6120 8084 10045	T1120 11258 12858 14029	16000 20418 21055	21760 22486 23123	24710 25503 27051	27596 28625 29237	29736 30397
26 1251 2489 6121 8085 10046	T1121 11259 12859 14030	16001 20419 21056	21761 22487 23124	24711 25504 27052	27597 28626 29238	29737 30398
27 1252 2490 6122 8086 10047	T1122 11260 12860 14031	16002 20420 21057	21762 22488 23125	24712 25505 27053	27598 28627 29239	29738 30399
28 1253 2491 6123 8087 10048	T1123 11261 12861 14032	16003 20421 21058	21763 22489 23126	24713 25506 27054	27599 28628 29240	29739 30400
29 1254 2492 6124 8088 10049	T1124 11262 12862 14033	16004 20422 21059	21764 22490 23127	24714 25507 27055	27600 28629 29241	29740 30401
30 1255 2493 6125 8089 10050	T1125 11263 12863 14034	16005 20423 21060	21765 22491 23128	24715 25508 27056	27601 28630 29242	29741 30402
31 1256 2494 6126 8090 10051	T1126 11264 12864 14035	16006 20424 21061	21766 22492 23129	24716 25509 27057	27602 28631 29243	29742 30403
32 1257 2495 6127 8091 10052	T1127 11265 12865 14036	16007 20425 21062	21767 22493 23130	24717 25510 27058	27603 28632 29244	29743 30404
33 1258 2496 6128 8092 10053	T1128 11266 12866 14037	16008 20426 21063	21768 22494 23131	24718 25511 27059	27604 28633 29245	29744 30405
34 1259 2497 6129 8093 10054	T1129 11267 12867 14038	16009 20427 21064	21769 22495 23132	24719 25512 27060	27605 28634 29246	29745 30406
35 1260 2498 6130 8094 10055	T1130 11268 12868 14039	16010 20428 21065	21770 22496 23133	24720 25513 27061	27606 28635 29247	29746 30407
36 1261 2499 6131 8095 10056	T1131 11269 12869 14040	16011 20429 21066	21771 22497 23134	24721 25514 27062	27607 28636 29248	29747 30408
37 1262 2500 6132 8096 10057	T1132 11270 12870 14041	16012 20430 21067	21772 22498 23135	24722 25515 27063	27608 28637 29249	29748 30409
38 1263 2501 6133 8097 10058	T1133 11271 12871 14042	16013 20431 21068	21773 22499 23136	24723 25516 27064	27609 28638 29250	29749 30410
39 1264 2502 6134 8098 10059	T1134 11272 12872 14043	16014 20432 21069	21774 22500 23137	24724 25517 27065	27610 28639 29251	29750 30411
40 1265 2503 6135 8099 10060	T1135 11273 12873 14044	16015 20433 21070	21775 22501 23138	24725 25518 27066	27611 28640 29252	29751 30412
41 1266 2504 6136 8100 10061	T1136 11274 12874 14045	16016 20434 21071	21776 22502 23139	24726 25519 27067	27612 28641 29253	29752 30413
42 1267 2505 6137 8101 10062	T1137 11275 12875 14046	16017 20435 21072	21777 22503 23140	24727 25520 27068	27613 28642 29	

BIDS AND DEALS

Pentos paying £1.8m for English and Overseas

Pentos, the industrial holding group, has made an agreed £1.8m bid for English and Overseas Investments which owns the Athena art reproduction company and makes transportation and cargo equipment through its Metalair subsidiary.

"We've made the bid because of Athena," said Mr. Terry Maher, the chairman of Pentos, yesterday. "But Metalair has a good record." Although High Street trading conditions were difficult at the moment, "in the long term we are very excited about Athena."

Pentos, whose interim profits fell sharply this year from £1.25m to £602,000, is offering 11 of its own shares for 30 of English and Overseas' whose quotation has been suspended since July after approaches from two parties.

At yesterday's Pentos share price of 47p, down 3p, the bid values English and Overseas at £1.77m. Pentos is also offering 11 of its own 13 per cent convertible loan stock 1990 for every £1 of 13 per cent convertible loan stock 1990 of English and Overseas.

The bid is the first acquisition move by Pentos whose interests include publishing and engineering, since Westpool Investment Trust and the Rayne Foundation

put up £3.6m worth of new capital, with a further £400,000 coming from Weisz Peck and Greer, a U.S. investment banking house.

The Board of English and Overseas, advised by Amex Bank, are recommending the offer and have accepted for the 30.3 per cent of shares held by themselves and their families.

Shareholders of English and Overseas, once headed by Mr. John Bloom of the failed Rolls-Royce concern, will still be entitled to receive the proposed final dividend of 40.375p per share for the financial year to March 31, 1980, when pre-tax profits dropped from £549,000 to £436,000.

Pentos said the loan stock would be convertible into its shares at the rate of four for every £3 of stock. Taking the Pentos loan stock at par, the value of the loan stock offer is £1.03m. English and Overseas' shares were originally suspended at 14p, with the bid valuing them at just over 17p.

English and Overseas' consolidated net tangible assets, adjusted to reflect a Metalair property revaluation, were £1.735m at March 31, Athena, which had sales of £5.5m in the last financial year operates 24 shops in the UK and four abroad.

13.3% in Parrish

shares (13.3 per cent) of Parrish, although Mr. Korsheed was still connected with the holding.

Mr. Bonnington, senior partner in St. Albans firm of architects, started building up his stake around 18 months ago when the price was about 65p and sold his stake at 109p. One thousand of the 97,025 shares bought from him by Mr. Korsheed were retained to supply the market.

Through a Jersey company, Royal Trust now owns 96,025

U.S. purchase by Reed Stenhouse

Reed Stenhouse Companies, the international insurance brokers, in which Stenhouse Holdings has a 53.7 per cent stake, has acquired Balanced Pensions Inc of New York for an undisclosed sum.

Balanced Pensions, a privately held company established by Mr. Theodore Mander in 1962, specialises in employee benefits plans for multinational companies.

The New York company will become Reed Stenhouse Balanced Pensions Inc, and will operate under the executive direction of Mr. Mander, who is president of Balanced Pensions.

VICKERS ACQUISITIONS

Vickers has acquired from the receiver and manager, certain assets of Notts Engineering Company of Ashton-on-Trent and its sales company, Maxi-Check Sales Company of Weston-super-Mare, Derbyshire.

The net assets acquired have a book value of around £800,000 and comprise the fixed assets, stock and work in progress.

The two companies, which went into receivership in July, manufacture and market, for use by the engineering industry, the maxi-check range of advanced co-ordinate measuring machines.

JARDINE MATHESON IN JOINT VENTURE

Davies Insurance Agencies, part of Jardine Matheson and Company, of Hong Kong, has entered into a joint venture with Fred S. James of the U.S. the world's sixth largest insurance broker.

This agreement will give James 50 per cent equity interest in Davies Insurance Agencies and marks the company's first presence in the Hawaiian market.

Davies Insurance Agencies is a subsidiary of Theo. H. Davies and Company of Hawaii, which is itself a wholly owned subsidiary of Jardine Matheson.

Last week it was announced that Sir James Goldsmith's Anglo-Continental Investment and Finance company is negotiating to sell 53 per cent of Wiggin Poland, the Lloyd's of London insurance broking group to Fred S. James.

UDT, DOMINIONS TRUST

Mr. L. C. Mather, chairman of United Dominions Trust, told the annual meeting that he expected the deal with the Trustee Savings Bank would be completed in January 1981.

Shareholders would not have long to wait before a lasting solution was achieved to the problems that had beset the group along its road to recovery, the chairman said.

The deal, announced last month, involves the TSB Group taking a 75 per cent stake in the traditional UK investment credit operations of UDT, including those in Northern Ireland and to have the right to acquire the balance subsequently.

WARING & GILLOW U.S. EXPANSION

Waring and Gillow (Holdings) has purchased Kinet Inc, an established U.S. company operating three furniture stores. The Waring group view the acquisition as a sound basis for future growth in the U.S.

Mr. Mammy Cussins, the chairman, points out that the company had intended to embark on a limited venture in the U.S. by entering the Drexel Heritage "Showcase" programme. The stores acquired will be converted into DH Showcase stores.

The company is also to acquire two further stores at Tampa and Clearwater in Florida, while the board is currently looking at other areas to expand including Philadelphia and Orlando.

Mystery approach to Gough Cooper may lead to higher bid

A RIVAL bidder seems to be emerging for Gough Cooper, the housing concern which has already rejected a full bid from Starwest Investment Holdings.

Gough Cooper, in which Starwest has a 29.5 per cent stake after a "dawn raid" in July, said that it had received an approach "which may lead to a higher offer being made to shareholders."

Shares of the company were accordingly suspended yesterday at an unchanged price of 127p, valuing the company at £9.96m compared with the £8.4m at which Starwest bid values it.

Although Mr. Remo Dipre, the chairman of Starwest, has been in touch with Hill Samuel, Gough Cooper's financial advisers, no clues as to the identity of the possible second bidder were forthcoming yesterday.

Starwest, a private company, has made an offer of 120p a share in cash for the 5.5m Gough Cooper shares it does not own. No comment was available yesterday from Starwest.

Gough Cooper yesterday continued to advise shareholders to take no action. A further announcement is expected in the next few days.

SHARE STAKES

Rolfe and Nolan Computer Services—Mr. M. Rolfe, director, has disposed of 50,000 shares.

Reo Stakis Organisation—Miss A. Stakis has sold shares in the company reducing her holding to below 5 per cent.

Extracts from the Chairman's Statements

Blyvooruitzicht Gold Mining Company, Limited



Harmony Gold Mining Company Limited

(Both companies incorporated in the Republic of South Africa)

Members of the Barlow Rand Group

"The year ended 30th June, 1980 was very successful for both companies. The improvement in the financial results is due, almost exclusively, to the increase in the gold price over the year. However, the contribution arising out of the increase in productivity must not be overlooked. A number of records were set in both companies during the year." —D. T. Watt.

partly and the gold price in U.S. Dollar terms. To some extent, these parameters are inter-dependent and can probably be expected to vary directly.

However, the gold price in U.S. Dollar terms will without doubt be the most important variable. Over the past year the gold price has been mainly influenced by three factors, namely, inflation in the major western economies, the energy problem and the rising cost of oil, and political crises, particularly in the vicinity of the oil rich countries of the Middle East. All three factors will continue to influence the gold price during the next year. In particular it would appear that inflation related action on the part of the U.S. Government will continue to affect the gold price. The energy problem and the cost of oil are not likely to have a significant effect on the gold price. The political crisis will continue to occur from time to time and disrupt the gold price. A rising trend in the average gold price, with fairly large fluctuations in both directions about the rising average trend, would thus appear to be the likely scenario for the immediate future.

Uranium

The market for uranium was continually and increasingly oversupplied throughout the year with the result that the gold price decreased dramatically. This development will have an adverse influence on the uranium profits next year, and most probably the year thereafter as well. The companies are however, in the fortunate position of not having any substantial amount of disposable uranium oxide available for sale in the near term. This means that the companies will not aggressively have to seek substantial new sales in a weak market. Although the current market is depressed, I am certain that nuclear and coal based energy sources still remain the only viable alternatives to oil in the foreseeable future and that the demand for uranium will strengthen in the years to come. In view of the significant improvement in the gold price and the likelihood of a uranium price being maintained on average over the next year, the adverse developments in the uranium market will not have a material effect on the overall financial position of the companies.

General

It would be misleading to conclude this particular review of the future without referring to the increasingly serious problem of rising costs. I referred in some detail to the problem in my last statement, and unfortunately I must draw attention to the fact that despite concerted efforts on the part of the management, costs continue to rise at an alarming rate. The prospects of an early reversal in this trend are not good, but management remains committed to implement whatever cost saving measures may be possible. This critical need to control costs and build sound industrial relations will be the two greatest challenges confronting mine management in the immediate future.

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expenditure will be financed internally by your company. This will significantly influence the distributable profits for the year ending 30th June 1981.

The major portion of the estimated capital expenditure for the financial year ending 30th June 1981 will be expended on underground development and installations, and on mining equipment. A further large amount will be expended in the construction of new processing facilities within the company's lease area.

Capital expenditure in the year ending 30th June 1982 will involve further capital expenditure. Capital expenditure in the year ending 30th June 1982 is now expected to be about R14.5 million. This expectation must however, be treated with some reserve as the company's capital expenditure programme will be continuously reviewed in terms of the requirements and opportunities presented by the changing economic environment in which the company operates. Future capital expenditure could, for example, be materially influenced if it was found that it would be profitable to mine any of the other red horizons in the lease area.

A wage review for black workers has been completed since the year-end and has resulted in an average increase for surface workers of 39 per cent and for underground workers of 29 per cent. These increases came into effect on 1st July 1980 and are therefore not reflected in the financial results for the year under review.

The total dividend for the year ended 30th June 1980 amounted to 265 cents per share. This distribution represented a substantial increase over that of the previous year, largely as a result of the improvement in the gold price. The fact that the capital expenditure during the past year was funded from the company's own resources and not from a consumer loan also contributed to the increase in the total dividend.

Capital expenditure during the financial year ended 30th June 1980 was R12.1 million, which was approximately R1.3 million less than I expected in my statement last year, due to certain projects not being completed by the year-end. This expenditure was funded in its entirety by the consumer loan reported last year. The capital expenditure for the financial year ending 30th June 1981 is now estimated at R17.2 million. Expenditure during the quarter ending 30th September 1980 will be funded from the balance of the consumer loan and thereafter

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The assessment of the profit potential of mining the north-eastern and south-eastern sections of the lease area will be completed in the near future. Similarly, the exploitation of areas on the western flank of the mine is also to be evaluated in the near future and significant capital expenditure on the preparation for the mining of these areas may be required shortly.

Capital expenditure during the forthcoming year is now estimated at approximately R26 million. This will include about R13 million on underground works and mining equipment. Employee housing, including 100 new houses for married black employees, and various other amenities for employees, will absorb R6 million. Expenditure on the western flank of the lease area will be approximately R1 million while other surface installations, buildings, plant and equipment with about R3 million. Capital expenditure in the following two or three years is also expected to remain in excess of R20 million per annum. This expectation must, however, be treated with some reserve as the company's capital expenditure programme will be continuously reviewed in terms of the requirements and opportunities presented by the evolving economic environment in which the company operates.

The assessment of the profit potential of mining the north-eastern and south-eastern sections of the lease area will be completed in the near future. Similarly, the exploitation of areas on the western flank of the mine is also to be evaluated in the near future and significant capital expenditure on the preparation for the mining of these areas may be required shortly.

Wage reviews for black workers took place in August, 1979 and July, 1980. These two reviews had the effect of increasing surface workers' wages by 39.2 per cent and underground workers' wages by 31.7 per cent. The increase which came into effect on 1st July 1980 is not reflected in the financial results for the year under review. Wages paid to black employees on Harmony remain amongst the highest in the industry.

The company will increase the size of its stockpile of uranium oxide in preference to contracting for sales at unusually low prices in view of the significant improvement in the gold price. The likelihood of a reasonable gold price being maintained on average over the next year, the adverse developments in the uranium market will not have a material effect on the overall financial position of the company.

A dividend of 200 cents per share was declared on 11th September, 1980. Providing the average gold price does not decrease substantially below U.S. \$600 per fine ounce in real terms the next dividend should be of the same magnitude as the dividend just declared.

AGB research set for overseas acquisitions

BOARD MEETINGS

Bowshere	Oct. 9
Chemical Int'l	Sept. 20
Brooks	Oct. 2
Downiehne	Sept. 26
Findlay Hardware	Sept. 30
Fisons Minsep	Sept. 25
Hanger Investments	Oct. 8
Holt (Joseph)	Sept. 25
Hoyle Manchester Ass.	Sept. 25
Miller (F.) Textiles	Sept. 10
Scottish Television	Sept. 10
Southern, Isle of Wight and South of England Royal	Sept. 26
Spofford	Sept. 26
Stevens	Sept. 26
Summer (France)	Sept. 20
Talbot T-Line Caravans	Sept. 26
Tilbury Contracting	Sept. 24
Turner	Sept. 24
Walker (C. and W.)	Sept. 29

FUTURE DATES	

<

FOREST PRODUCTS DIVISION TO BE SOLD

Bendix in \$435m disposal

BY DAVID LASCELLES IN NEW YORK

BENDIX, the diversified industrial concern which is also the largest U.S. maker of automotive parts, announced yesterday that it plans to sell off most of its forest products division in a deal worth about \$435m. As part of a broad redeployment of its assets, it is also looking into the possibility of selling its 20 per cent stake in Asarco, one of the leading U.S. copper companies.

The developments were announced by Mr. William Agee, the chairman, at a security analysts meeting in Boston. He described them as part of "our strategy of redeploying our

assets—either within our existing businesses or through acquisitions—into areas which meet our requirements for high technology content, rapid growth prospects and high returns."

The forest products division will be sold to a private New York company, Kohlberg Kravis Roberts and Company, and most of the purchase price will be paid in cash. Forest products account for about 10 per cent of Bendix's revenues, and Bendix will make "a very substantial capital gain" on the sale.

In announcing that Bendix may also sell its Asarco stake,

Mr. Agee said that an acceptable plan would have to be developed with Asarco. Bendix started building up its position in Asarco in 1978 at a time when minerals were considered to be good value. The investment proved lucrative as the stake has provided Bendix with both a sizeable capital gain and high dividend earnings. However, the recent weakness of copper prices has caused Bendix to re-examine its position.

At yesterday's market price, 20 per cent of Asarco was worth \$285m.

Since taking over the chair-

manship from Mr. Michael Blumenthal, the former Treasury Secretary three years ago, Mr. Agee has adopted a strategy of steering Bendix into high technology areas, while at the same time remaining flexible enough to walk away from ventures that were not providing an adequate return. In his 1979 annual report he vowed to make 1980 a year to "reaffirm the primacy of technology in the corporation."

Earlier this year Bendix bought Warner and Swasey, a leading machine tool maker, for \$291m.

Wheelabrator appeals against ruling

By Our New York Staff

THE OUTCOME of the battle between Wheelabrator-Frye and McDermott for control of Pullman may be decided today when a federal court in Chicago is to determine whether or not Wheelabrator's offer must be extended to October 17.

Wheelabrator's bid was originally due to expire last Friday. But a Chicago district judge ruled on the same day that Wheelabrator's decision to increase its bid from \$43 to \$52.50 constituted a new bid, and should remain open until October 17.

Until that moment it looked as if Wheelabrator had snatched victory from McDermott. But unless the court today overturns that ruling, the contest will be wide open again and McDermott will have a chance to push its improved offer.

At the moment, Wheelabrator-Frye is offering \$52.50 for 5.5m of Pullman's 11.2m shares, with the remainder to be acquired through a stock swap. McDermott is offering \$54 a share for up to 5.4m shares, with the rest also to be bought in a paper transaction.

Wheelabrator shares opened yesterday at \$50, unchanged from last week, suggesting caution on Wall Street.

Earnings gains for food groups

BY OUR FINANCIAL STAFF

SUCCESSFUL TRADING in the past three months at two major food groups underlines the improvement in prospects for consumer industries in the U.S.

General Mills, the leading package food producer, is increasing its quarterly dividend from 33 cents a share to 37 cents on the back of first quarter earnings in line with forecasts. It expects record results in the second quarter.

Beatrice Foods, which takes 73 per cent of its earnings from food operations, is lagging behind forecasts at the end of the second quarter, but can expect further progress during the year as the acquisition of

Tropicana Products bears fruit. At the end of the first quarter, earnings at General Mills have increased from \$42.8m or 85 cents a share, to \$44.2m or 88 cents. Sales, at \$1.09bn, compares with \$973m last year.

Mr. E. Robert Kinney, the chairman says that the relatively small gain in earnings for the first quarter was the result primarily of heavy marketing expenditures to support product introductions and expansion, as well as retailer and consumer caution in a recessionary climate.

Beatrice Foods pushed earnings ahead by 6 per cent in the second quarter, with food operations posting a strong gain. But earnings from non-food operations were lower. This was as predicted by the board, which had said that food earnings would prove resistant to sluggishness elsewhere in the economy.

Agri-products, which traditionally turn in about 6 per cent of earnings, were successful in the previous quarter. About one-fifth of sales and earnings come from overseas operations but there was no news of the performance of this sector during the quarter reported.

Campeau lifts Trustco bid price

BY ROBERT GIBBENS IN MONTREAL

CAMPEAU CORPORATION, the property development group, has failed in its first attempt to gain control of Canada's largest trust company, Royal Trustco, but has extended the offer to October 2 and raised the bid to \$1.2m.

Campeau is now offering CS\$23 per common share of Trustco and CS\$32.78 for each preferred share, against CS\$1 and CS\$29.98 respectively in the initial bid which expired last

Friday. Assuming all Trustco shares were tendered, the bid would be worth CS\$450m (\$385m).

Trustco said it believed the new offer would also be rejected.

Campeau has not revealed the number of Trustco shares tendered by last Friday, but it was well below the minimum sought of 50.5 per cent. Trustco said that the bid failure was a "clear response

from shareholders, who deem it wrong for the assets of Royal Trustco and its clients to come under the control or dominating influence of any one person or company."

Campeau Corporation, in turn, claims that not all Trustco shareholders had a fair chance to respond to its bid. "We were disappointed that we did not get the minimum 50 per cent shares."

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September 1980

Deutsche Mark bond calendar at DM 1.5bn

By Francis Ghislé

THE GERMAN Capital Markets Sub-committee agreed yesterday to a calendar of new Deutsche Mark foreign bond issues for the next four weeks, which could top DM 1.5bn.

Only DM 350m of new foreign D-Mark bonds were issued during the past three weeks and foreign demand for such paper has all but dried up. The cut in the German Lombard rate last Thursday did give a fillip to the market but senior dealers viewed this as no more than a short term shot in the arm.

A dealer at one of Germany's largest banks described the new issue calendar as "rather a joke."

A number of banks have, in recent weeks, been obliged to postpone issues they were planning to bring to the market because of lack of demand. "Maybe they have booked a place in the queue with no real intention of buying a ticket for the show," he added.

Seasoned D-Mark foreign bond issues stood at a point yesterday after news of the size of the new issue calendar filtered into the market. This final push pulled the yield on longer dated foreign D-Mark bonds back to 8.25 to 8.35 per cent, the level at which they stood last week before the cut in the Lombard rate.

The new calendar will be

opened on Thursday by Oesterreichische Kontrollbank with a DM 150m public issue

through Deutsche Bank.

The bond for OKE will be followed by a DM 150m public issue for a European state guaranteed address through Commerzbank next Monday and a DM 75m private placement for a European industrial address through Westdeutsche Landesbank the day after the German Federal elections on October 6. On October 7, DG Bank will bring a non-European name to the market for DM 50m to DM 60m to be followed two days later by Westdeutsche Landesbank with a DM 100m private placement for a European address. At about the same time Deutsche Bank will launch a DM 150m issue for a European name.

On October 13, Bayerische Vereinsbank will arrange a DM 70m private placement for a European name and on the following day Deutsche Bank is expected to bring Argentina to the market for DM 100m. Dresdner Bank follows on the following day with a DM 100m European name and on October 16 EHF Bank will launch a further DM 100m for a European borrower.

Venezuela is expected to close the queue on October 17 with a DM 100m to DM 150m bond through Westdeutsche Landesbank.

Two issues for supranational borrowers might also be launched which would bring the total volume of new issues to more than DM 1.5bn, one of the largest in the past 12 months.

In the dollar sector of the market yesterday prices of seasoned issues—particularly at the shorter end of the maturity range—shed about a point on the day. This was accentuated during the afternoon by the weakness of the New York bond market. Most of the falls were accounted for by nervousness about escalating tension in the Gulf.

Meanwhile in the Swiss franc sector, the OKE has privately placed SWF 65m of six-year bonds through Swiss Bank Corporation with a coupon of 6 per cent.

During the 12 months to the end of June 1980, the World Bank borrowed \$5.17bn through international bonds of which Deutsche Mark denominated paper accounted for 42 per cent and U.S. dollars for a further 23 per cent. The rest was made up of bonds denominated in Swiss francs, yen and Austrian schillings.

The World Bank since has arranged \$314m of new international bond issues. \$553m of which were denominated in D-Marks. If anything, the mix has tilted even more in favour of D-Marks in recent months.

Chicken price rise aids Federal

By Our Financial Staff

A SIGNIFICANT recovery in poultry product prices sharply boosted earnings in the first quarter at Federal Company, a major U.S. processor of broiler chickens. Last year poultry product operations, although responsible for more than half of group earnings, were unprofitable for Federal.

In the opening quarter of the year, earnings increased from \$4.8m, or \$1.19 a share, to \$7.8m, or \$1.92, while sales moved up from \$244.3m to \$262.7m. The recovery comes after five consecutive quarters of declining earnings.

Mr. R. Lee Taylor, the president, said the main area of improvement came from broiler prices which were 14 per cent higher than a year

Yugoslavia seeks to plug the payments gap

By PETER MONTAGNON

FACED WITH a serious gap in the country's balance of payments and dwindling foreign exchange reserves, Yugoslav officials have in recent months undertaken a veritable odyssey around the world in the search for large amounts of medium-term financing.

Last week a top level delegation from the country's central bank visited London for preliminary soundings on a jumbo Eurocredit. This week negotiations begin in Paris for financing totalling \$200m from French banks. According to Mr. Ksenite Bogoev, president of the National Bank, the talks are part of an overall plan to raise more than \$2bn in balance of payments finance this year and further substantial amounts in 1981 and 1982.

Mr. Bogoev said that a three-pronged approach was being employed. Yugoslavia was seeking bilateral finance from OPEC countries as well as from banks in European countries with which it had close trade connections. Finally, a jumbo Eurocredit was being sought from banks in other countries where interest in Yugoslavia was less specific.

Progress to date has been most significant in the OPEC arena. Due to be signed this month is a \$250m, eight-year Eurocredit with a margin of 1½ per cent, provided by Kuwaiti banks. The banks have agreed to provide an additional \$250m in each of the next two years on conditions still to be negotiated. Iraq has also agreed to a large economic package for an unspecified amount.

Preliminary discussions have also taken place with Libya over the provision of \$75m this year and the same amount next year, while Yugoslavia hopes to obtain \$150m a year for the next two years from the United Arab Emirates.

In Europe, the main target of Yugoslavia's efforts has been West Germany, where banks are

are

banks at commercial rates with the "moral backing" of the governments concerned.

On this basis Austrian banks have already agreed to provide \$100m and talks with Swiss banks over a commitment of \$100m are in the final stages.

Besides the request to French banks, Italian banks are being asked to put up \$200m a year for the next two years and according to Mr. Bogoev, the Italian Government has already indicated its support for the request.

With other countries, Yugoslavia has less-developed bi-lateral relationships.

Their banks are to be asked to provide a jumbo Eurocredit with main participation coming from banks in the U.K., U.S., Canada and Japan.

Lobbying for this credit is

expected to begin earnest at the forthcoming International Monetary Fund meeting, but bankers already believe it will be a much more critical test of the country's standing in the Euromarkets than the bilateral credits which are supported by short-term borrowing by Yugoslav banks. This will be repaid once the medium-term finance starts to flow.

Meanwhile, foreign exchange reserves have risen nicely from their low point of \$1.45bn at the end of March. They now stand at around \$2.3bn and are expected to rise to about \$2.6bn by the end of the year. Some of the recent increase reflects short-term borrowing by Yugoslav banks. This will be repaid once the medium-term finance starts to flow.

FT INTERNATIONAL BOND SERVICE

The list shows the 200 latest international bond issues for which an adequate secondary market exists. For further details of these or other bonds see the complete list of Eurobond prices published on the second Monday of each month.

U.S. DOLLAR STRAIGHTS Issued Bid Offer day week Yield Change on

OTHER STRAIGHTS Issued Bid Offer day week Yield Change on

CLOSING PRICES on September 22

Change on

Companies and Markets

INTERNATIONAL COMPANIES and FINANCE

SPANISH TEXTILES

Closing the book on the Intelhorce saga

BY ROBERT GRAHAM IN MADRID

THE STATE takeover of a group of Spanish textiles companies has closed the book on one of the more controversial industrial stories of the Franco era. The Intelhorce group had been bought for a nominal Pta 1 by the state Property and Investment Department which operates under the Ministry of Finance, separate from the state holding company, INI.

The saga of Intelhorce began in 1957 when INI, in order to promote investment in southern Spain, decided to establish a textile plant at Malaga. Intelhorce, with a labour force of 3,500, became the region's largest employer. In December 1972 the then head of INI, Sr. Claudio Boada, agreed to hive off the company into the private sector. The purchaser was the Castell group, a Catalan enterprise with important textile interests which controlled

Banco de Madrid and an industrial bank, Cadesbank.

The reason for the sale was never clear. The company had accumulated losses of Pta 321m (\$4.7m) and the sale price was Pta 842m (\$1.7m), equivalent to 55 per cent of the nominal value of the shares.

Only in the first year under private ownership did the company show a profit. By 1979 Intelhorce had accumulated losses of Pta 11.2bn. Almost 60 per cent of these losses occurred in the last two years. This is the biggest single private sector loss outside the steel industry.

Losses were the result of a mixture of factors. Intelhorce became a victim of the changed and more liberal climate in the wake of Franco's death. Under Franco industrial peace was bought with high wages, which manufacturers could offset against "privileged" credits

and through external tariffs and internal protection. In 1977 the credit system was partially liberalised and privileged credit for industrial concerns like Intelhorce became hard to obtain.

Suddenly, the company's financial costs soared and there was no check to the wages bill as Government policy allowed wages to rise sharply. At the same time recession hit the domestic economy and foreign sales became tougher, carried out on reduced margins. In the case of Intelhorce wages were some 20 per cent above the industry average.

The situation was complicated by two further matters. Banco de Madrid and its affiliate, Cadesbank, stepped in to provide substantial credits. But these banks were also involved simultaneously in propping up other ailing textile plants near Barcelona based on Intel-

horce's subsidiary, Gossyplum. As early as December 1977 the Castel group approached the Government to buy back the company, negotiations dragged on, with the Government reluctant to assume responsibility for something willingly bought by the private sector.

Matters came to a head this spring with a large scale salvage operation to aid the two banks which were the effective owners of Intelhorce and Gossyplum. The country's leading bank, Banesto, took over Banco de Madrid, in which it had a 17 per cent stake, and Cadesbank is being restructured with the aid of the banking system's deposit guarantee fund. Banco de Madrid and Cadesbank agreed to write off Pta 7.75bn (\$1.1bn) in loans to Intelhorce, the elimination of all reserves and a capital write down from

Pta 3bn to Pta 750m. They also agreed to write off Pta 4.75bn in loans to Gossyplum, which INI to the state Investment and had accumulated losses of Property Department. The precedent of INI buying back a

company that it sold off eight years previously would have been politically embarrassing. The solution is a compromise. The department manages direct government holdings in 36 companies which include the three monopolies of tobacco, telephones and petroleum distribution. Unlike the INI companies, nearly all are profit making and the department itself operates closer to market principles.

Against this Pta 3.9bn of Intelhorce's outstanding debt has been restructured on a 10-year roll over at zero interest for the first two years, and capital is being raised by Pta 1.5bn.

The most significant development, however, is the way the

AGA
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As a consequence, an ex Period in accordance with Condition 5. (h) 5 (A) of the Bonds will commence as per the close of business, Stockholm time, on October 14, 1980, and continue until the close of business on December 9, 1980, after which date a Notice of Adjustment will be published to inform the holders of the above-mentioned Bonds of the adjustment, if any, to the conversion price in respect of the Bonds to take effect retroactively from the beginning of the ex Period.

Bonds in respect of which the conversion date falls during the ex Period will be dealt with in accordance with Condition 5. (h) (8) of the Bonds until the date when the retrospective adjustment, if any, to the conversion price takes effect.

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Credit Suisse First Boston Limited
Agent Bank

CIGA hotels takeover completed

BY RUPERT CORNWELL IN ROME

INTERPROGRAMME, THE Swiss-Italian property fund group, has completed its purchase of a controlling stake in the luxury hotels group, Ciga, from the Rome-based property group, Societa Generale Immobiliare.

Under the deal, which was signed at the weekend, the Interprogramme concern of Sir Orazio Bagmasco will pay L45bn (\$33m) in cash for the 3.9m Ciga shares owned by SCI which constitute 41.4 per cent of the capital of the hotel chain. The injection of liquidity will be particularly useful for SCI, both as a means of reducing its current short-term debt exposure of £75m, and in pushing through the rationalisation

of its chain.

For its part, Interprogramme has announced that it has withdrawn its original offer, believed to have been worth £260m, for the remnants of the property empire of the Caltagirone brothers, now facing charges of fraudulent bankruptcy.

• Olivetti, the Ivrea-based office equipment and electronics concern, yesterday announced that it had acquired a significant shareholding in the U.S. com-

Losinger sees higher turnover

By John Wicks in Zurich

TURNOVER of the Losinger concern, Switzerland's biggest construction company, is expected to reach SwFr 800m (\$865.8m) this year, compared with SwFr 559.2m in 1979.

The agreement is also accompanied by an arrangement whereby Olivetti will have exclusive sales rights for Docutel automatic tellers outside the U.S. and Canada, while in North America the Dallas-based company will have similar rights for Olivetti banking system products.

Olivetti added last night that the two companies also plan to pool forces on research in the bank teller field, to increase the harmonisation of their respective systems.

Venture capital offshoot planned by Dutch bank

BY CHARLES BATCHELOR IN AMSTERDAM

A NEW company is to be set up by Nederlandsche Middenstands-Bank (NMB) to provide venture capital to industry following the easing of regulations governing equity investments by banks.

In a letter to shareholders, Mr. Vinzenz Losinger, the chairman, said that operating Docutel automatic tellers outside the U.S. and Canada, while in North America the Dallas-based company will have similar rights for Olivetti banking system products.

While conditions on the Swiss construction market remain mixed, Losinger views the development of its important foreign operations optimistically.

The central bank last week announced the scrapping of previous regulations limiting banks to a 5 per cent holding in companies. It will now allow banks to put up El.2.5m of capital into a company, provided they remain minority shareholders and they retain their holding for only five years. Banks must not commit more than "a few percentage points" of their own capital to this form of investment.

NMB will initially limit itself to 5 per cent of its own El.1bn capital but hopes to be allowed by the central bank to raise this to 10 per cent later. It will concentrate on young and expanding companies.

Enpetrol seeks \$50m credit

By Peter Montague

SPAIN'S oil concern, Enpetrol, is seeking to raise a \$50m Euro-credit for 12 years at a margin of 4 per cent above interbank rate. Lloyds Bank International is understood to be agent, although the borrower itself is taking an unusually active role in the syndication process.

As with the recent \$50m private placement arranged by Chase Manhattan for the telephone company, Cia Telefonica, the borrower has been able to impose a fine margin and long maturity because of lucrative collateral business it offers to the banks.

The telephone credit also bore a 3 per cent margin, although the maturity was 10 years.

The terms do, however, underline the popularity of Spanish borrowers with international banks at present. Among expected future deals is a \$150m borrowing by the government agency, Instituto de Credito Oficial, but bankers say there are no concrete signs so far of a jumbo Eurocredit for the Kingdom of Spain itself.

Separately, Cia Seciliana de Electricidad has mandated Bank of Montreal to raise C\$80m over nine years at a margin of 3 per cent above Canadian prime rate,

Odd bedfellows as HK land sales set records

BY OUR HONG KONG CORRESPONDENT

HONG KONG'S volatile property market has in the last week featured the largest block of land ever to go under the hammer at an auction here, the highest amount ever bid for property in a government tender, and strange bedfellows in a consortium that won the tender.

The record area property was a 52.5m sq ft site in the New Territories for which a four-member consortium headed by Cheung Kong (Holdings) and China Resources, an investment arm of Chinese Government, paid the reserve price of HK\$800m (around US\$120m). The site, to be developed into one of the new towns that now dot the New Territories, had earlier been spoken for by the consortium, but was put on auction by a court order after a dispute arose about payments to minority owners.

A record in payment was set with a HK\$1.3bn purchase of a 71,000 sq ft lot in a prime commercial area on the tip of the Kowloon Peninsula. The price per square foot of HK\$18,000 is less than the HK\$26,000 per square foot paid for a commercial building site on Hong Kong Island earlier this year, but the

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The Federal Republic of Nigeria

US \$ 28,000,000

Medium term project loan for the construction of the Oso-Iwopin Highway by Intercontractors (Nigeria) Ltd

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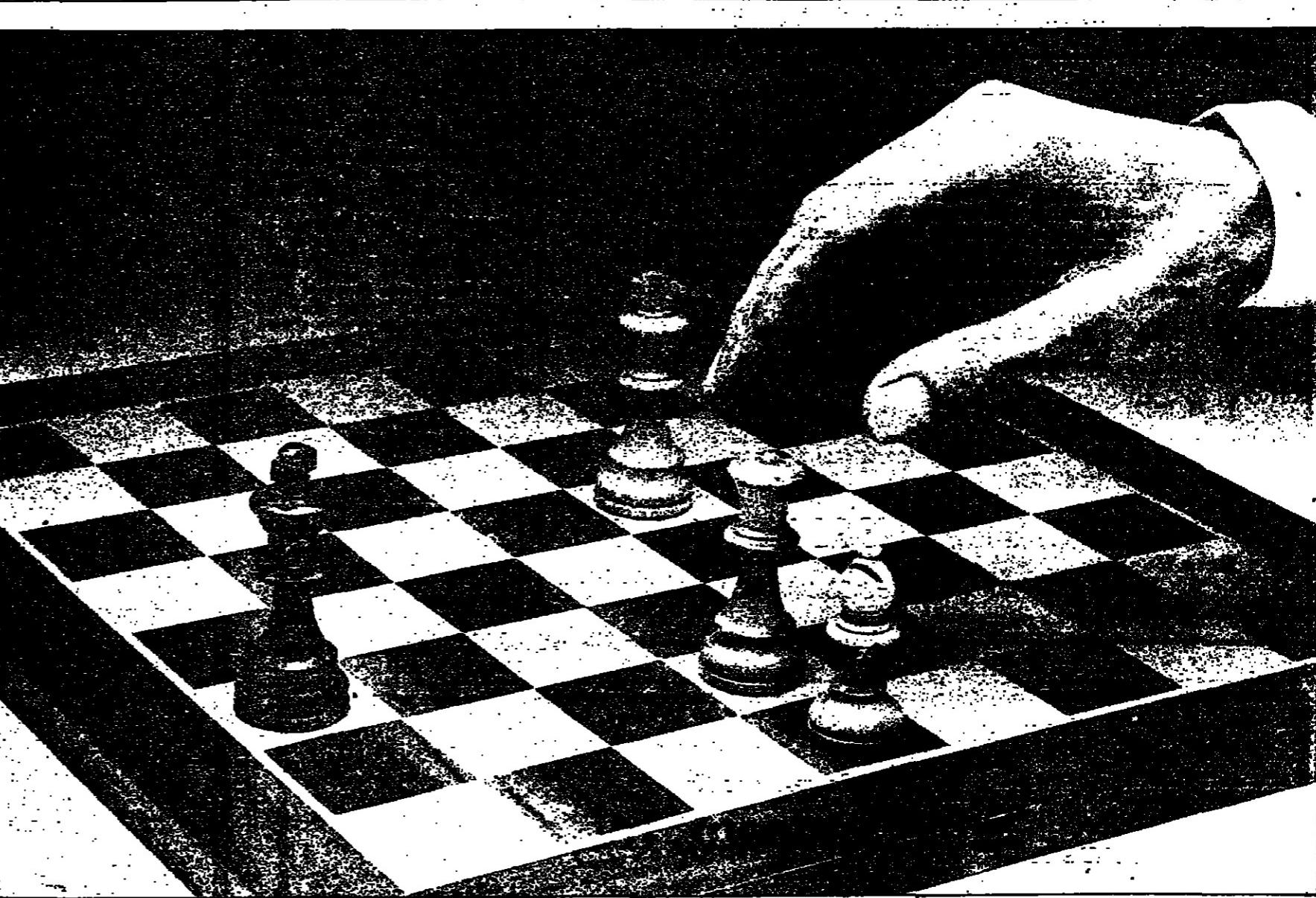
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Medium term project loan for the construction of the Oso-Iwohin Highway contract awarded to Intercontractors (Nigeria) Ltd.



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Companies
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JAPANESE INDUSTRY

Putting the figures in perspective

BY CHARLES SMITH, FAR EAST EDITOR, IN TOKYO

BRITISH STEEL Corporation's ICI 8, and British Steel 5. The turnover in 1978 was just over one-third that of the Nippon Steel group but its workforce was 93 per cent larger. Turnover per employee at BSC was thus 18 per cent of the Nippon Steel figure, reports Dodwell Marketing Consultants in the latest (4th) edition of its well-known reference work on the Japanese corporate landscape: Industrial Grouping in Japan*

FORD MOTOR COMPANY has reached a preliminary agreement to transfer its 50 per cent stake in Japan Automatic Transmission Company (JATCO) to Nissan Motor and Toyo Kogyo.

Several meetings between Nissan and Toyo Kogyo have failed to bring agreement on the ratio of distribution of the capital, according to Nissan.

JATCO was established in 1975 under Ford's manufacturing licence for the domestic production of automatic transmissions in anticipation of strong demand for automatic vehicles. The company was capitalised at Y3.24bn (U.S.\$15.2m) with 50 per cent held by Ford, and 25 per cent each by Nissan and Toyo Kogyo.

Nissan has tightened its grip on JATCO by purchasing 70.80 per cent of its output and installing a Nissan executive as president of JATCO. Nissan's original intention was to bring its stake in JATCO to over 50 per cent and eventually to attain full control.

However, the agreement on Ford's equalisation of a 25 per cent stake in Toyo Kogyo is May last year threatened Nissan with a lessening of its influence over JATCO, and its stable supply of automatic transmissions.

During the past year, Nissan has been strenuously negotiating for the transfer of half Ford's 50 per cent stake in JATCO to Nissan.

However, Ford was reluctant to retreat from JATCO, since the joint venture company has reported good business, has no debts, and pays high dividends.

Despite the increasing demand for automatic vehicles, Japanese car makers, other than Honda, are dependent for their supplies of automatic transmissions on foreign capital-affiliated parts makers. Nissan, Fuji Heavy Industries and Toyo Kogyo obtain automatic transmissions from JATCO. Toyota, and the Toyota subsidiary Daihatsu Motor, depend for their supply on Aishin-Warner, which is jointly owned by another Toyota subsidiary Aishin Seiki and the major U.S. car parts manufacturer Borg Warner.

Toyo Kogyo is insisting on Ford's stake in JATCO being shared on an equal basis between the two Japanese partners. Nissan argues that the capital distribution ratio should be one to four or one to three, to reflect the fact that 80 per cent of JATCO products are bought by Nissan.

In order to break the deadlock, Nissan has proposed a three-cornered meeting with Ford Motor as an arbitrator. The talks will include negotiations on the transfer price.

Bank of New Zealand
THE Bank of New Zealand has reported net profits up 10 per cent to NZ\$13.2m (U.S.\$13m) for the year to March 31, after tax up by NZ\$2m to NZ\$16.7m. Dividend total NZ\$6.5m. Dai Hayward writes from Wellington.

The main groups have also acted to establish "group joint ventures" in new industries, such as nuclear power, ocean development, leasing and communications and information services. Mitsubishi, for example, consists of a cluster of 28 "nucleus" companies with several hundred more loosely related associates.

An exception to the general pattern of higher equity ratios for western companies.

A comparative ranking of the Japanese groups themselves shows Mitsubishi comfortably topping the list in 1978 with a turnover of Y22.33bn (U.S.\$23bn) followed by Dai-ichi Kangyo (Y16.65bn) and Sumitomo (Y16.05bn). Sumitomo grew more rapidly than any of the other groups between 1976 and 1978, and also recorded the highest level of interlocking shareholdings. The Mitsubishi group, consisting of 138 companies according to Dodwell, accounted for 5 per cent of the turnover of all Japanese companies capitalised at Y10m, or more, while the top six groups together accounted for 22 per cent of the same total.

Dodwell's analysis of Japanese industrial groupings has been criticised in some quarters on the ground that the inclusion or exclusion of some companies in the major group involves an element of subjectivity. This appears to be true so far as companies on the fringes of the groups are concerned. It is not true, however, with the "nucleus" or core companies which actually account for the bulk of each group's turnover.

*Industrial Groupings in Japan, Revised Edition 1980-81 published by Dodwell Marketing Consultants, Price £10.00.

JAPANESE GROUPS COMPARED

	Number of companies	1978 turnover Y bn	net profit Y bn	Capital employees '000s
Mitsubishi	136	22,336	201	387
Mitsui	102	16,058	121	200
Sumitomo	108	16,407	174	325
Toyo	103	14,962	108	256
Dai-ichi Kangyo	64	16,654	85	317
Sanwa	80	13,552	82	217

Holding companies are illegal in Japan, so the Dodwell book explains, so that shareholdings in the big groups are mutual rather than vertical. In some groups, however, the ratio of "crossholdings" (ie, the proportion of a member-company's stock held by other group members) is as high as 40 per cent. Apart from mutual shareholdings, links between group members take the form of monthly meetings of company presidents (whose proceedings in most cases are closely guarded secrets).

Apart from the Nippon Steel-BSC comparison, a striking contrast is that between Toyota (the number one Japanese car manufacturer, and since the start of 1980 the world's second biggest motor producer) and British Leyland. BL's turnover in 1978 stood at 25 on a scale in which Toyota's sales represented 100, but BL had 42 percent more employees than Toyota and its turnover per employee was 18 per cent of the Toyota figure. BL's shareholder equity ratio in 1978 was 34 per cent to Toyota's 47.5 per cent, yet 50.000.

Texas Pacific Oil Company, Inc.

a wholly-owned subsidiary of

The Seagram Company Ltd.

has sold its U.S. oil and gas properties for

\$2,300,000,000

and certain contingent interests in

Sun Company, Inc.

The undersigned initiated negotiations in this transaction and acted as financial advisor to The Seagram Company Ltd.

Shearson Loeb Rhoades Inc.

September, 1980

UNION DE BANQUES ARABES ET FRANCAISES—U.B.A.F.

Limited Company with a capital of French Francs 250,000,000
Registered Office: 4, rue Ancelle—92521 NEUILLY-SUR-SEINE Cedex
Trade Register: NANTERRE B 702 027 178
A.P.E. 3902

APPOINTMENT OF REPRESENTATIVES OF THE GENERAL BODY OF BOND-HOLDERS OWNING U.S.\$1,000 1980/1990 BONDS

The Ordinary General Meeting of Bond-Holders owning U.S.\$1,000 1980/1990 Bonds, which took place on 9th September 1980, appointed:

- Mr. JACQUES D'HUVÉ residing 56, avenue de la Forêt—77210 AVON
- Mr. PHILIPPE LE MOEL residing 1, rue du Plessis Bouchard—95370 MONTIGNY-LES-CORMEILLES as regular Representatives of referred General Body.
- Mr. PIERRE ZERDOUN residing 7, rue François Mouton—75015 PARIS
- Mr. YVES ROUSSELIN residing 17, Allée du Mail—ROUVRÈS—77230 DAMMARTIN-EN-GOELE as Deputy Representative thereof.

Banco Nacional do Desenvolvimento Econômico

U.S. \$50,000,000

Floating Rate Notes 1989

Notice is hereby given
pursuant to the Terms and Conditions of the Notes that
for the three months from

23rd September, 1980 to 23rd December, 1980
the Notes will carry an interest rate of 12.5% per annum.

On 23rd December, 1980 interest of U.S.\$31.25 due
due per U.S.\$1,000 Note and U.S.\$31.25 due
per U.S.\$1,000 Note for Coupon No. 6.

European Banking Company Limited
(Agent Bank)

23rd September, 1980

CURRENCIES, MONEY and GOLD

£ & \$ strong

Sterling and the U.S. dollar both rose sharply in currency markets yesterday, underpinned by current unrest in the Middle East. The conflict between the two oil states, Iran and Iraq, increased demand for the pound as the UK is seen as being generally insulated from the effects of any possible disruption of oil supplies from the Middle East. Sentiment for sterling was also improved by comments over the weekend by Mr. John Nott, the Trade Secretary, which tended to decrease market rumours of an early cut in MLR.

The dollar was bolstered by a firmer trend in Euro-dollar rates and signs of a further rise in domestic interest rates, following last week's sharp rise in the money supply. Sterling's trade weighted index rose to 84.0 from 82.5.

DEUTSCHE MARK—One of the weaker members of the European Monetary System, and trading on or just above a four-year low against sterling. However, it has shown little overall movement against other currencies lately despite the latest cut in the Bundesbank Lombard rate. The Deutsche Mark was slightly weaker overall at yesterday's fixing in Frankfurt, with attention tending to focus on the U.S. dollar and sterling in the light of current Middle East unrest. Sterling touched a new four-year high and was fixed at DM 4.3080 compared with DM 4.2810 on Friday, while the dollar rose to DM 1.7880 from DM 1.7861. Elsewhere, the Swiss franc eased to DM 1.09151 from DM 1.0934, and the Belgian franc was higher at DM 6.238 per BFr 100 compared with DM 6.233 previously. The French franc was fixed slightly lower at DM 43.02 per FF 100, from DM 43.04.

BELGIAN FRANC—Showing a weaker tendency in terms of its EMS partners, and despite central bank support, unlikely to stage any sustained recovery in the short term. The Belgian franc made marginal gains at yesterday's fixing in Brussels, but the basic undertones remained weak. Currencies improving at the franc's expense included sterling at BFr 69.11 compared with BFr 68.73 on Friday, and the French franc at BFr 6.90124 against BFr 6.90 previously. On the other hand the U.S. dollar eased slightly to BFr 28.525 from BFr 28.53, and the Deutsche Mark was lower at BFr 16.0375 from BFr 16.045.

The dollar was firmer against most currencies, closing at DM 1.8085 against the D-mark, its highest level for a month, and compared with Friday's close of DM 1.7960. Against the Swiss franc it rose to SwFr 1.6575 from SwFr 1.6445, and Yen 214.75 from

Yen 210.90 in terms of the Japanese yen. On Bank of England figures, the dollar's trade weighted index rose to 84.0 from 82.5.

DEUTSCHE MARK—One of the weaker members of the European Monetary System, and trading on or just above a four-year low against sterling. However, it has shown little overall movement against other currencies lately despite the latest cut in the Bundesbank Lombard rate. The Deutsche Mark was slightly weaker overall at yesterday's fixing in Frankfurt, with attention tending to focus on the U.S. dollar and sterling in the light of current Middle East unrest. Sterling touched a new four-year high and was fixed at DM 4.3080 compared with DM 4.2810 on Friday, while the dollar rose to DM 1.7880 from DM 1.7861. Elsewhere, the Swiss franc eased to DM 1.09151 from DM 1.0934, and the Belgian franc was higher at DM 6.238 per BFr 100 compared with DM 6.233 previously. The French franc was fixed slightly lower at DM 43.02 per FF 100, from DM 43.04.

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EMS EUROPEAN CURRENCY UNIT RATES

	ECU	Currency	% change against ECU	% change from central rate	% change adjusted for divergence	Divergence limit %
central rates	Sept. 22					
Belgian Franc	36.7857	40.6716*	+2.07	+3.74	+1.63	+1.63
Danish Krone	7.72238	7.84803	+1.59	+0.28	+1.64	+1.64
German D-Mark	2.62808	2.63244	+2.03	+0.70	+1.25	+1.25
French Franc	5.24700	5.28863	+0.68	-0.65	+1.357	+1.357
Dutch Guilder	2.74562	2.75371	+0.57	-0.96	+1.512	+1.512
Irish Punt	0.67265	0.67265	+0.70	-0.63	+1.638	+1.638
Italian Lira	115.78	120.20	+3.73	+7.03	+4.08	+4.08
Canadian Dollar	0.857	0.867	1.560	1.561	1.561	1.561
Belgian Franc 100	1.435	1.438	1.634	1.703	1.703	1.703

Changes are for ECU, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

EXCHANGE CROSS RATES

	Sept. 22	Pound	Sterling	U.S. Dollar	Deutschmark	Korean Won	Japanese Yen	French Franc	Swiss Franc	Dutch Guilder	Italian Lira	Canadian Dollar	Bulgarian Franc
U.S. Dollar		2.404	2.404	1.000	816.0	10.08	3.985	4.720	2057	2.805	65.70	1.000	1.000
Deutschmark		0.416	0.416	0.416	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Japanese Yen 1,000		0.230	0.230	0.230	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
French Franc 10		1.982	2.004	2.004	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Swiss Franc		0.261	0.261	0.261	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Dutch Guilder		0.212	0.212	0.212	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Italian Lira 1,000		1.157	1.157	1.157	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
U.S. Dollar		0.857	0.867	0.867	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000	1.000
Belgian Franc 100		1.435	1.438	1.438	1.703	1.703	1.703	1.703	1.703	1.703	1.703	1.703	1.703

THE POUND SPOT AND FORWARD

	Day's spread	Closes	One month	Two months	Three months	Four months
Sept. 22						
U.S.	2.3225-2.4040	2.4030-2.4040	0.95-0.95pm	0.49	2.07-1.97pm	3.36
Canada	2.7800-2.8040	2.8025-2.8035	1.50-1.40pm	6.21	3.30-3.20pm	4.64
Belgium	68.35-68.40	68.35-68.40	3-2pm	6.36	84-85pm	5.30
Ireland	1.151-1.1520	1.1515-1.1520	27-17pm	3.79	53-53pm	2.75
W. Ger.	4.28-4.285	4.24-4.25	31-21pm	1.72	37-37pm	2.72
Portugal	119.20-120.20	119.20-120.20	par-100pm	2.00	110-110pm	1.93
Spain	175.75-178.75	178.15-178.75	100-145pm	8.32	270-340pm	6.80
Norway	2.00-2.005	2.005-2.007	100-145pm	5.68	42-42pm	8.48
France	9.10-9.105	9.10-9.105	4-5pm	2.88	87-87pm	2.65
Sweden	9.95-10.02	10.00-10.01	10.00-10.01pm	5.08	40-40pm	3.61
Japan	505-520	515-516	0.85-0.85pm	1.35	34-34pm	1.60
Austria	30.40-30.70	30.45-30.70	14-14pm	4.89	28-28pm	2.83
Switz.	3.92-3.93	3.98-3.99	47-48pm	10.92	10-10pm	9.54

Belgian rate is for convertible francs. Financial rate 69.30-70.00. Six-month forward 2.68-2.86pm. 12-month 3.25-3.10pm.

THE DOLLAR SPOT AND FORWARD

	Day's spread	Closes	One month	Two months	Three months	Four months
Sept. 22						
U.K.	2.3225-2.4040	2.4030-2.4040	0.95-0.95pm	4.48	2.07-1.97pm	3.38
Ireland	2.0820-2.0950	2.0825-2.0835	0.95-0.95pm	6.20	2.20-2.10pm	4.20
Belgium	1.95-1.95	1.95-1.95	0.85-0.85pm	0.82	1.20-1.20pm	1.20
Denmark	1.95-1.95	1.95-1.95	0.85-0.85pm	1.03	1.05-1.05pm	2.04
Belgium	28.97-28.97	28.99-29.01	20-20pm	2.21	2-2pm	0.14
Denmark	5.5500-5.5520	5.5505-5.5520	2.40-2.50pm	5.70	7.35-7.55pm	5.45
W. Ger.	4.15-4.155	4.15-4.155	0.85-0.85pm	3.39	1.61-1.61pm	3.52
Portugal	119.20-120.20	119.20-120.20	par-100pm	1.72	37-37pm	2.72
Spain	175.75-178.75	178.15-178.75	100-145pm	8.32	270-340pm	6.80
Norway	2.00-2.005	2.005-2.007	100-145pm	5.68	42-42pm	8.48
France	9.10-9.105	9.10-9.105	4-5pm	2.88	87-87pm	2.65
Sweden	9.95-10.02	10.00-10.01	10.00-10.01pm	5.08	40-40pm	3.61
Japan	505-520	515-516	0.85-0.85pm	1.35	34-34pm	1.60
Austria	30.40-30.70	30.45-30.70	14-14pm	4.89	28-28pm	2.83
Switz.	3.92-3.93	3.98-3.99	47-48pm	10.92	10-10pm	9.54

Belgian rate is for convertible francs. Financial rate 69.3

Companies and Markets

WORLD STOCK MARKETS

NEW YORK

Stock	Sept. 19	Sept. 18	Stock	Sept. 19	Sept. 18	Stock	Sept. 19	Sept. 18	Stock	Sept. 19	Sept. 18	Stock	Sept. 19	Sept. 18
ACF Industries	385.00	391.00	Columbus Gas	35.00	37.00	Gt. Atl. Pac. Tea	65.00	65.00	Mess. Petroleum	57.00	55.00	Schiltz Brew.	85.00	82.00
AMF	221.00	211.00	Columbia Rec.	25.00	26.00	Gt. Basins Pet.	14.00	14.00	SGM	149.00	149.00	Schlumberger	149.00	149.00
AM Int'l.	174.00	171.00	Combesto Eng.	64.00	64.00	Hillman Bros.	50.00	50.00	SGM	151.00	151.00	Shawmut	151.00	151.00
ARA	35.00	33.00	Comewit Edison	20.00	19.75	Holiday Inn	10.00	10.00	St. Paul-Pet.	151.00	151.00	Skidmore Owings & Merrill	151.00	151.00
ASA	75.00	75.00	Comm. Satellites	43.00	44.00	Hornbeam	21.00	21.00	Soc. Contrs.	137.00	137.00	Soeder	137.00	137.00
AVCO	11.00	11.00	GIC	1.00	1.00	Hough. Corp.	20.00	20.00	Soil Corp.	161.00	161.00	Soeder	161.00	161.00
Abbotts Lab.	54.00	52.00	Comp. Sciences	29.00	29.00	Houck	1.00	1.00	Soil Corp.	161.00	161.00	Southwest	161.00	161.00
Acme Cleve.	33.00	33.00	Cone Mills	43.00	43.00	Humboldt Ppr.	51.00	51.00	Southw. Corp.	161.00	161.00	Southw. Corp.	161.00	161.00
Adobe Oil & Gas	52.00	53.00	Conn Gah Ins.	50.00	47.00	Hurnan Minng.	35.00	35.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Aetna Life & Cas.	35.00	36.00	Cooper	63.00	63.00	Hutson	67.00	67.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Air Prod. & Chem.	50.00	50.00	Conti Corp.	32.00	32.00	Hurnituregier.	16.00	16.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Aleco	11.00	11.00	Cone Erison	52.00	52.00	Harris Ranch.	17.00	17.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Albany Int'l.	32.00	34.00	Cone Foods	25.00	25.00	Harris Ranch.	17.00	17.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Alcoa-Clev.	15.00	14.00	Conn Nat Gas	45.00	44.00	Hartford Corp.	30.00	29.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Alcan Aluminum	37.00	36.00	Copeland	21.00	21.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Alco Standard	34.00	34.00	Copperfield	21.00	21.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Aleghany Ladd.	37.00	36.00	Conti Air Lines	6.00	6.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Allied Indus.	22.00	22.00	Conti Corp.	30.00	29.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Allied Stores	32.00	32.00	Conti Telep.	14.00	14.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Allis-Chalmers	32.00	32.00	Control Data	75.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Alpha Port.	17.00	17.00	Hilton Hotels	—	—	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Alcoa	74.00	75.00	Hoover Univ.	19.00	19.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Alm. Super.	55.00	55.00	Hormel	60.00	60.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Almax	49.00	49.00	Holiday Inn	18.00	18.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amerada Hess	32.00	33.00	Hollingsworth	21.00	21.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Airlines	9.00	9.00	Hornbeam	21.00	21.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Broadcast	33.00	33.00	Houston Ind.	21.00	21.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Can.	33.00	33.00	Houston Ind.	21.00	21.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Cyanamid	20.00	20.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Express	37.00	37.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Gen. Insurance	39.00	39.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Am. Holt & Dic.	22.00	22.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amstar	26.00	26.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	20.00	Spa. Contrs.	161.00	161.00	Southw. Corp.	161.00	161.00
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Amwest Inds.	46.00	46.00	Hughes Tool	77.00	73.00	Hawthorne	20.00	2						

COMMODITIES AND AGRICULTURE

Zinc price battle opens

By John Edwards
Commodities Editor

OPENING shots in a zinc price battle were fired yesterday. First A. M. and S. Europe, the only domestic British zinc smelter at Avonmouth, announced it had increased its European producer base price from £780 to £865 a tonne. Shortly afterwards, however, Cominco, the big Canadian producer, said it was raising its European producer quotation to \$845 a tonne.

A rise in the cost of producer zinc, which accounts for the bulk of supplies to consumers, is not entirely unexpected following the recent increase in U.S. zinc prices and on the London Metal Exchange, which reflects movements in the "free" (non-producer) controlled market.

Yesterday the LME cash zinc price rose by 25 to close at £851 a tonne. The rise was mostly attributable to the upward trend in all metals but during the past month LME values have moved up by nearly £60 and at present are even above the producer price equivalent of \$845.

The main question is whether the LME rise has been caused primarily by inspired speculative buying, as many dealers believe, or if it represents a genuine recovery in the fundamental supply-demand.

A slump in demand, after a buoyant first quarter, forced producers to cut prices from \$825 to \$780 in April and consumption has been hit badly in zinc's two main outlets—galvanised steel and diecasting. Recently, however, it has been argued that severe cutbacks in production have brought supply and demand back closer into balance.

A. M. and S. evidently decided to take a cautious line with a modest price rise below LME levels since demand in Europe is still fairly sluggish. But it is claimed that consumption in the U.S., which suffered a dramatic fall in the second quarter, is showing stronger signs of recovery and this has encouraged Cominco to take a bolder line. Although other zinc producers are known to be keen to raise prices substantially, to take advantage of the world shortage of zinc concentrates, a different view may emerge from smelters, not linked with mine producers.

A higher base price will mean they will have to pay more for their concentrates, but may find it difficult to pass on the higher price to consumers, if demand remains sluggish.

Mid East conflict fuels metals surge

BY OUR COMMODITIES EDITOR

THE IRAN/IRAQ conflict, and the resultant surge in gold, brought a general rise on the London metal markets yesterday. Leading the field, after gold, were the other two precious metals, platinum and silver.

Free market platinum rose above £300 for the first time since July, gaining £9.55 to £300.85 a troy ounce. Silver was particularly strong. The London bullion spot quotation was raised by 78.1p to 956.7p a troy ounce at the morning fixing and the market moved further ahead in the afternoon. The LME cash price closed at 890p an ounce, 58p up on Friday's close.

Dealers claimed that at times it was silver that was fuelling the rise in gold. The price has now moved up by some 300p since the beginning of September, following the emergence of

a dampening influence in all the excitement on the London Metal Exchange yesterday were bigger than expected rises in warehouse stocks. LME copper holdings increased by 2,875 tonnes to a modest rise of 250 to 61,625 tonnes and LME silver holdings increased by 290,000 to 26,350,000 ounces. Only nickel stocks fell, by 102 tonnes to 4,788 tonnes

stocks, up by 7,225 to 70,450 tonnes, also exceeded market expectations. As anticipated, aluminium stocks rose by 4,050 tonnes to 37,500 tonnes following a reported inflow of low-quality Egyptian supplies. Zinc stocks showed a rise of 250 to 61,625 tonnes and LME silver holdings increased by 290,000 to 26,350,000 ounces. Only nickel stocks fell, by 102 tonnes to 4,788 tonnes

strong buying interest from many sources, including the Middle East and the surge in precious metals. Cash wirebars closed £36.75 higher at £989.75 a tonne, while the three months quotation broke through the £900 barrier again moving up by

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Manila copra earnings fall by 30 per cent

MANILA—Philippine earnings from coconut products, the main source of foreign exchange last year, are expected to fall by almost 30 per cent this year to \$710m from just over \$1bn in 1979, according to latest estimates of the United Coconut Association of the Philippines.

Based on actual export figures for the January to July period and projected estimates for August to December, the association's research unit put total export volume for 1980, in copra terms, at 1.59m tonnes, up 3.8 per cent on the 1979 total of 1.53m. But earnings will be lower, by declining prices and reduced consumption.

The request was apparently

made by Soviet foreign trade officials during a visit to Moscow last week by representatives of the Brazilian state trading organisation, Interbras.

Soviet officials have already confirmed that they are on the world market for sugar, apparently because of fears that this year's Russian beet harvest will be disappointing.

The official Soviet sugar production target for 1980 is 9,205m tonnes, but some western market specialists believe the total domestic output could be as low as 8.0m tonnes.

Last week world sugar prices moved higher in response to expectations that the USSR might seek more sugar on top of the 1.65m tonnes it was estimated to have bought recently.

In London sugar prices were steady but relatively quiet, with the daily price for raws marked £8 down at £364 in the morning. However, futures values closed higher, with the January position £2.25 up at £393.

The EEC Commission, meanwhile, plans to seek support from member governments for the EEC to join the International Sugar Agreement. This confirmed a statement made by Mr. Doug Anthony, Australian Deputy Prime Minister following talks in Brussels last week when he said the Commission would raise the subject at next week's meeting of EEC agriculture ministers.

At the end of a three-day meeting, it was announced price discipline measures would be worked out at the fourth technical meeting of international

pears to £927.25 in very active trading conditions.

Adding impetus to the rise in copper was news of a breakdown in talks aimed at settling the U.S. copper workers strike that started on July 1.

It appeared last week that Phelps Dodge and other producers were close to reaching a settlement with the workers, using the Kennecott agreement as a basic formula. But these "peace" talks have unexpectedly broken down and it appears the stoppage, with substantial loss of production, could continue for some time yet. Meanwhile U.S. producers announced a series of domestic copper price increases ranging from between 4c to 12c a pound. Phelps Dodge raised its quotation from 98c to 102c per tonne but Asarco lifted its price by 6c to 104c.

Russia buys Brazilian coffee

By Our Commodities Staff

THE SOVIET UNION has bought coffee again on the international market after an absence of four years, according to Reuter reports from Moscow.

The agency said that Sovzoplodimport, the Soviet State trading organisation, and the Brazilian Coffee Institute concluded a deal last week in Rio de Janeiro for 2,750 tonnes of coffee worth \$5.6m.

Moscow used to buy coffee regularly from Brazil, Colombia and other large producers for hard currency, but dropped out in 1976 when the price soared; instead it negotiated on a barter basis with Angola and Mozambique and with India for a long-term agreement. Recent two-year lows on the coffee market have probably tempted the Soviet Union back as a buyer.

In London the market was nervous, awaiting the outcome of the International Coffee Organisation discussions on possible export quotas. But in the afternoon prices firms and November Robusta futures closed at £1,101.5 a tonne, a rise

Good rice crops pose export problems

By RICHARD COPPER IN JAKARTA

GOOD or even record crops of rice in the U.S. and Asia this year will mean that some rice exporting countries could have difficulties finding a market for their rice.

Indonesia—the world's largest rice importer—is predicting a record crop of 18m tonnes and has already begun postponing shipments. Earlier in the year, Bustanil Armin, the head of the country's rice agency, Bulog, predicted that Indonesia would import 2.7m tonnes this year, but now it looks as if Indonesia will import less than 2.5m tonnes.

With national stocks at an all-time high of 2.5m tonnes, Indonesia has already begun delaying contracted for shipments.

Thailand and Burma have now agreed to defer until next year a total of 173,000 tonnes and next month Bustanil Armin flies to the Philippines to request the postponement until next year of a further 75,000 tonnes. Japan has also agreed to delay shipments to Indonesia of some 150,000 tonnes though it is not yet clear for how long.

One expert in the rice trade said that there was a lot of anxiety and concern among traditional rice exporters, although this might be mitigated to some extent by increased

29

the world's top three rice exporters, China, the U.S. and Thailand are all recording good to record crop increases at a time when many top rice importers are also expecting good to record crops. Together the U.S., China and Thailand are likely to produce over 5m tonnes more rice this year than last, while Indonesia, by far and away the world's largest importer, will itself produce an estimated extra 2m tonnes compared with last year.

The U.S. Department of Agriculture is forecasting a world increase of around 21m tonnes, up to 34m tonnes this year from 37.3m tonnes in 1979/80. The result, to date, has been notably quiet, with many importers hanging fire until their own rice requirements become clearer after what they expect to be extremely good domestic crops. Though it is too early to be absolutely certain, a number of exporters could well find themselves with an embarrassing amount of unsold rice on their hands at the end of the financial year.

Rise in India's food crop expected

NEW DELHI—India's winter food crop is expected to be 80m to 90m tonnes against 62.8m last year and 78.7m tonnes in 1978/79. Raviendra Singh, Agriculture Minister, has

said that export markets have been notably quiet, with many importers hanging fire until their own rice requirements become clearer after what they expect to be extremely good domestic crops. Though it is too early to be absolutely certain, a number of exporters could well find themselves with an embarrassing amount of unsold rice on their hands at the end of the financial year.

India, Minister of State for Agriculture R. V. Swaminathan said the total foodgrain production in the current agricultural year (July-June) would be over 130m tonnes. Earlier preliminary estimates by the agriculture ministry said total output in 1979/80 would be about 135m tonnes.

Production in 1979/80 fell to an estimated 115m tonnes because of drought against a record 131m tonnes the year before.

In Delhi, Mr. Singh said monsoon floods this year affected 2.4m hectares of land and damaged cropped areas totalling 1.16m hectares. Cropland worth Rs 925m were lost according to estimates by state governments.

Speaking in Kottayam, South

Malaysian futures opening date

By Wong Sulong in Kuala Lumpur

The KUALA LUMPUR Commodity Exchange will begin

commercial operations on October 23, with crude palm oil futures as the first commodity to be traded.

Mr. Paul Leong, the

Minister of Primary Industries, who announced the

date, said tin and rubber

would be included in the

trading at some future dates.

Trading in palm oil futures

will be done by the open outcry system, in contract lots of 25 tonnes.

The launching of the ex-

change is part of Malaysia's

efforts to promote an interna-

tional commodity trading

centre in its capital since the

country is the world's big-

gest producer of rubber, tin,

palm oil, and a growing pro-

ducer of cocoa.

In Paris over the weekend

Alexandre Beltrao, executive

director of the ICO, said that

the will exist for producers

and consumers to reach agree-

ment on quotas and prices this week.

He confirmed that discussions

last week had centred on ques-

tions of a global export quota

for producers of around 55m

bags a year and a possible floor

price to activate the quotas of

143 or 144 cents a pound.

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LONDON STOCK EXCHANGE

Unprecedented rises in Golds take index up 54 points to all-time peak—Equities and Gilts weaken further

Account Dealing Dates

First Declara- Last Account Dealings Date
Sept 15 Sept 25 Sept 26 Oct. 6
Sept 29 Oct. 9 Oct. 10 Oct. 20
Oct. 13 Oct. 23 Oct. 24 Nov. 3
"New time" dealings may take place from 9 am two business days earlier.

Leading equities continued to fall yesterday and Government securities also weakened, but the exceedingly drab scene in London stock markets was coloured by a new upsurge in South African Gold shares. The last-mentioned recorded fresh-gains ranging to 9 points among heavier-priced issues following news of the escalating conflict between OPEC member states Iraq and Iran. The reports put the price of gold up sharply again and also encouraged firms in oil shares. As a result, the FT Gold Mines index staged its biggest advance in a single day to close 54.1 higher, at a best-ever 558.9.

The CBI's depressing view of manufacturing industry's prospects coupled with the Trade Secretary's warning of a possible rise in inflation and his ruling out of any cut in Minimum Lending Rate simply on political grounds, further unsettled equity markets. These were already weak on the UK recession, highlighted last week by leading engineering group GKN. First-line industrials thus suffered not only from an initial markdown but also from small public selling which found buyers again extremely wary.

The Middle East reports later gave impetus to equity downturn but few sectors encountered any significant selling pressure except for Electricals, in which 34% shares of Electrocumponents were said to have been placed. Towards the close, a tentative rally began to develop as professional operators closed their bear positions and the FT Industrial Ordinary index, after registering a fall of 9.5 at 2.00 pm, settled 7.1 down on the day at 457.3.

Receding hopes about lower domestic interest rates and concern over rising U.S. Prime rates prompted early dullness in Gilts. The losses were initially modest but a bout of nervous morning selling caught the market unaware and the falls were extended to a point or so. Thereafter, conditions remained sensitive and quotations stayed at the lower levels until recovering slightly during the afternoon's business. Selected longs

then still showed losses of a point but the majority closed above the lowest. Short-dated stocks ended around 1 down.

Yesterday saw 2.875 deals completed in the Traded Option market, making it the busiest session since July 4 when 2,574 were done. Following weekend Press comment, Louise attracted a good business and recorded 1,218 deals, while the hostilities in the Far-East helped to expand business in Consolidated Goldfields in which 805 contracts were arranged.

ORE, which made a successful debut last week, attracted strong support and put on 10 to 135p which compares with the placing price of 67p; the shares are dealt under Special Rule.

INSURANCES dull

Insurances started the week on a dull note. Among Lloyds brokers, Stewart Wrightson relinquished 8 to 235p in front of today's interim results, while C. E. Heath gave up 7 to 215p. Up 34 last week following the better-than-expected half-year results, Willis Faber touched 255p before closing a net 3 down at 257p.

Small selling and lack of support also made for full conditions in the banking sector. Awaiting today's interim statement, Bank of Scotland drifted down 5 to 285p, after 289p.

Scattered offerings were reflecting in a few modest losses in the Brewery sector. Still reflecting a broker's down-graded profits forecast, Bass drifted off to 235p.

The Building sector was featured by Tarmac which dropped 15 to 235p on interim profits below market estimates and the Board's cautious remarks on current trading. BFB came on offer and shed 8 to 236p and Ready Mixed Concrete gave up 4 to 195p. Blue Circle, however, finished just 2 cheaper at 325p. Contracting and Construction issues had Taylor Woodrow 10 down at 472p and Costain 4 off at 180p, but Tilbury Contracting added 4 to 217p ahead of tomorrow's half-year results. Allied Plant improved to 335p following favourable Press mention. Among Timbers, the withdrawal of speculative support left Montague L. Meyer cheaper at 94p and Phoenix 8 lower at 102p. Dealings in Gough Cooper were suspended at 127p pending details of an approach to the company which may lead to a higher offer than the 120p per share cash bid from Starwest Investment.

Fisons' interim profits failed to match market estimates and the price dropped to 179p before the appearance of cheap buyers left the close 7 down on balance at 205p. ICI slipped to 350p before rallying well to close only a net 2 off at 355p.

Kean & Scott jump

In an otherwise friendless Stores sector, Kean and Scott jumped 33 to 65p on news of the big approach from Hawley Leisure. Down 28 last week on profit-taking, Cornell Dresses, in which Mr. Asil Nadir has an option on a controlling interest, rallied 4 to 62p, after 64p. Lead-

ership of 8 at 222p, Engineering leaders generally ended the day a penny or so above the worst. GKN became the steadiest market at 190p, down 2 pence after last week's drop of 93, while Hawley finished 2 easier at 226p, after 229p. Selected secondary issues encountered selling. Henry Sykes weakened 7 to 23p on sharply reduced half-yearly earnings and the passing of the interim dividend. RCF were noteworthy in smaller-priced issues for a fall of 2 at 13p.

Leading Foods were subjected to early selling which left Tate and Lyle 8 off at 185p and Unigate 3 cheaper at 162p. Against

men's jumps 45 to 610p following Press comment and Dunstan rose 7 to 88p for a similar reason. Reflecting a further sharp rise in the bullion price and continuing talk of a possible bid from Charter Consolidated, Johnson Matthey gained 12 more to a 1980 peak of 277p. Giltspur improved 4 to 81p on an investment recommendation, while William Baird revived with a rise of 5 to 178p.

GKN's poor interim performance continued to weigh heavily on Motor Components, Dowty shedding 10 to 231p and Associated Engineering to 49p. Lucas fell to 188p before closing 5 net 4 off at 184p. Garages had Tex Service on offer at 80p, also

10p down.

Leading Press gains were commonplace among South African Industrials. Barlow Rand featured with a jump of 39 to 485p, while Tiger Oils added 30 to 650p, and O. N. Bazaar, 670p, and Gold Fields Properties, 135p, advanced 20 and 15 respectively.

Still drawing strength from the doubled dividend and sharply higher preliminary profits, Assam Frontier gained 8 to 110p in otherwise featureless Plantations.

Oils contrast

DRG's interim profits matched market estimates, but the chairman's cautious remarks on current trading caused some selling and the close was 3 cheaper at 31p.

Fading hopes of an early cut in Minimum Lending Rate caused some selling in Properties, but closing levels were sometimes above the worst. Land Securities finished 4 off at 383p, after 380p, but MEPC closed at 400p, while Tiger Oils added 30 to 650p, and O. N. Bazaar, 670p, and Gold Fields Properties, 135p, advanced 20 and 15 respectively.

Still drawing strength from the doubled dividend and sharply higher preliminary profits, Assam Frontier gained 8 to 110p in otherwise featureless Plantations.

Golds soar

South African Gold shares registered their biggest-ever one day rises and soared to record levels as the worsening situation between Iran and Iraq saw the bullion price surge \$3 to \$711.5 an ounce, its highest since early February.

Sustained heavy buying from all international centres found the market short of stock and led to unprecedented gains in Golds shares which led to a record leap in the Gold Mines index of 54.1 to a peak 558.9.

Among the heavyweights, "Angold" showed a rise of 23 to 660, Western Holdings were 26 up at 491 while gains of 25 and more were common to Vaal Reefs, 245, West Driefontein, 233 and Western Deep, 233 ex rights.

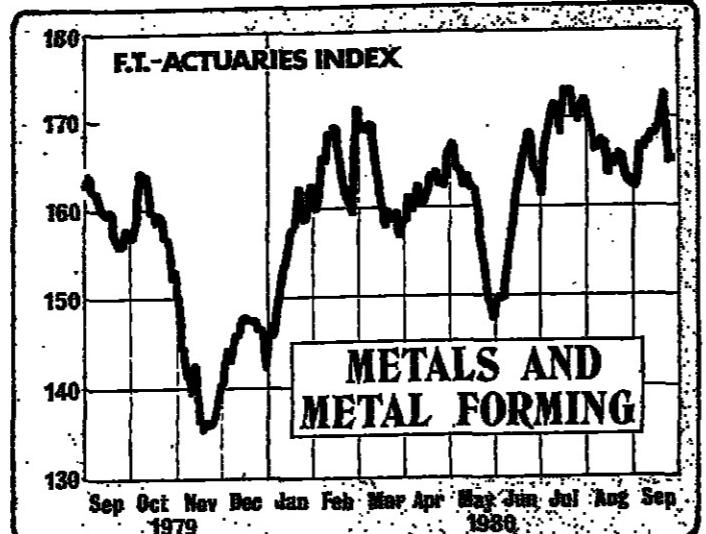
The units issued to Welton shareholders by Western Deep were quoted at £155 premium in nil paid form. In the medium-priced issues, Zandfontein jumped 101 to 180p and Stock Conversion 10 to 325p. Estates and General Investments shed a penny to 38p and Estates Property Investment 8 to 166p following the respective trading statements, but A. J. Macklow put on 5 to 213p on the satisfactory annual results and the proposed 5.25% rights issue.

The News of the Iran/Iraq conflict

coupled with the agreement by most of the OPEC countries to cut back crude oil production by 10 per cent prompted a lively interest in Oils. Trading was lively, with conditions particularly active in the late deals when BP pushed ahead strongly helped by U.S. support to close 18 higher at 380p. Esso advanced 45 to 735p and Ultramar 18 to 400p, while Tricentrol closed 16 dearer at 356p. Among the more speculative exploration issues, CCP rose 11 to 268p and Cliffs 15 to 340p, while Sceptre Resources closed 30 higher at 520p with the aid of favourable Press mention.

Lorou stood out in Overseas Traders with a Press inspired rise of 5 to 110p.

Trusted trended easier but reflecting the firmness in Oils, Atlantic Assets improved 4 to 229p and Viking Resources 5 to 135p. Among Financials, Fashion



ing issues mirrored the general dual trend as persistent small selling and lack of support left closing falls ranging to 6. House of Fraser, 134p, British Home, 145p, and Gussies 145p, all closed that much easier. Grattan Warehouses gave up 2 to 50p ahead of tomorrow's interim results, while James Walker Goldsmith softened 2 to 77p on the results.

Electrical leaders rallied well after a fair amount of selling, GEC closing 5 off at 524p, after 518p, and Thorn EMI only 2 cheaper at 353p, after 348p. High-dividend secondary issues were also on offer.

Farrell moved 10 to 550p and Ferranti 13 to 447p, while STC gave up 18 to 420p, following comment on the preliminary results. Figures for the 15-month period left Emerson Lighting 5 lower at 160p. Electrocumponents closed 14 lower at 700p, after reports of a large line of shares being placed through the market.

Apart from Tubes, which closed around the day's worst

the trend, J. N. Nickolls (Vimto) put on 20 to 265p in a thin market reflecting recent Press comment.

Johnson Matthey good

A gloomy economic survey from the CBI, the Trade Secretary's weekend comment that he held out no hope of an immediate cut in interest rates and the combination of further underwriting in the Miscellaneous Industrials following Thursday's depressing interim statement from GKN. Boots, 245p, and Metal Box, 232p, lost 6 apiece, while Beecham dipped 5 to 154p as did Reed International, to 182p. Elsewhere, Letraset lost 6 to 165p on the chairman's profits warning, while Smiths Industries fell 13 to 240p on further consideration of the current plight of the motor industry. Beatson Clark fell 8 to 115p on the interim dividend omission and half-year profits slump. By way of contrast, Aeronautical and General Instru-

FT-ACTUARIES SHARE INDICES

These Indices are the joint compilation of the Financial Times, the Institute of Actuaries and the Faculty of Actuaries

EQUITY GROUPS & SUB-SECTIONS

Figures in parentheses show number of stocks per section

	Mon., Sept. 22, 1980	Fri., Sept. 19	Tues., Sept. 17	Wed., Sept. 16	Thurs., Sept. 15	Year ago (approx.)	
Index No.	Day's Change %	Est. Earnings Yield % (Max.)	Gross Div. Yield % (Act. at 30%)	Est. P/E Ratio (Net)	Index No.	Index No.	Index No.
1 CAPITAL GOODS (171)	-1.5	15.29	5.72	7.95	291.81	296.16	294.95
2 Building Materials (22)	-1.8	18.10	6.57	6.55	259.77	262.52	259.79
3 Contracting, Construction (27)	-1.5	21.72	5.59	4.95	438.48	437.81	435.96
4 Electricals (17)	-1.5	11.08	3.02	11.10	99.43	99.16	99.42
5 Engineering Contractors (11)	-2.3	17.92	7.52	7.12	335.68	335.74	335.72
6 Mechanical Engineering (72)	-1.7	16.19	7.44	7.58	192.99	192.65	192.65
7 Metals and Metal Forming (16)	+0.1	17.68	9.82	7.04	165.18	170.80	170.88
8 CONSUMER GOODS (124)	-1.5	15.38	5.22	8.85	248.67	250.27	247.33
9 L. Electronics, Radio, TV (14)	-1.3	12.76	3.70	11.99	378.25	386.68	381.59
10 Household Goods (14)	-0.8	22.50	11.25	4.58	98.15	98.72	99.54
11 Motors and Distributors (21)	-0.1	22.22	9.63	9.95	99.95	102.27	101.22
12 CONSUMERS (172)	-1.4	17.02	6.68	7.10	245.55	246.76	245.45
13 Breweries (14)	-0.3	15.51	6.29	7.52	255.85	257.09	255.95
14 Wines and Spirits (5)	-0.3	19.45	6.47	6.05	317.29	314.51	317.15
15 Entertainment, Catering (17)	-1.5	16.59	6.44	7.36	250.85	252.05	249.07
16 Food Manufacturers (22)	-1.5	18.13	6.25	6.50	223.96	224.47	222.73
17 Food Retailing (3)	-0.3	21.81	6.74	6.74	243.25	243.77	242.05
18 Newspapers, Publishing (12)	-0.3	21.01	6.74	6.74	448.45	448.45	448.45
19 Packaging and Paper (15)	-0.3	17.81	6.25	6.18	229.52	229.52	229.52
20 Stores (42)	-0.3	12.52	6.25	6.25	226.78	227.78	226.78
21 Textiles (21)	-1.6	22.37	6.27	6.25	321.75	322.75	322.75
22 Footwear (5)	-0.3	25.44	6.42	6.42	213.95	213.45	213.45
23 Toys (5)	-0.5	26.76	6.50	6.48	246.47	246.55	246.47
24 OTHER GROUPS (99)	-1.2	15.70	6.95	7.52	227.43	228.82	227.25
25 Chemicals (16)	-0.8	17.45	7.82	7.68	313.73	312.78	312.78
26 Pharmaceutical Products (7)	-2.3	10.56	5.83	11.71	242.64	246.89	246.65
27 Office Equipment (5)	-0.1	20.26	8.19	5.79	104.97	105.26	105.19
28 Shipping (10)	-0.5	13.22	6.32	9.25	591.54	591.00	586.26
29 Miscellaneous (60)	-0.2	14.51					

INDUSTRIALS—Continued

INSURANCE,—Continued

PROPERTY—Continued

INVESTMENT TRUSTS—Cont.

FINANCE. LAND—Continued

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MINES—Continued

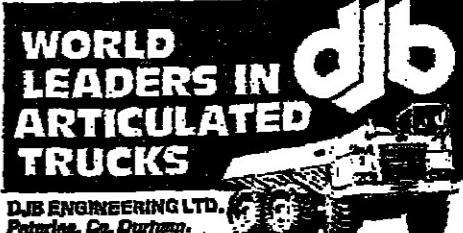
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FINANCIAL TIMES

Tuesday September 23 1980



Public spending steady while GDP falls by 2%

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

CENTRAL and local government spending has so far held up to about the recent record levels, while the brunt of the deepening recession has fallen on private industry and on public corporations.

Central Statistical Office figures published yesterday show that economic activity, as measured by real Gross Domestic Product, fell by 1% to 2 per cent between the first and second quarters of this year.

The figures highlight the contrast between the experience of the public and the market sectors. Industrial production fell by 3 per cent in the period and services output also dropped, but there was a decline of only 1 per cent in general government consumption.

The latter consists of current spending on goods and services, notably manpower, and excludes both net investment, which has been falling sharply, and transfer payments, such as social security benefits, which have been rising rapidly.

Over the long term, general Government consumption has risen only fairly slowly. But in the last year it has been more resilient than other forms of activity. For example, the current spending of central and local government in the first half of this year was 1% per cent higher than in the same

ECONOMIC ACTIVITY		
	Industrial and commercial companies, net of stock appreciation	Gross Domestic Product, average estimate (1975=100)
1977	105.1	16,532
1978	108.4	19,422
1979	109.9	21,755
1979 1st	108.2	4,473
2nd	111.5	5,568
3rd	109.4	5,471
4th	110.6	5,843
1980 1st	109.7	6,103
2nd	108.0	6,464

All figures seasonally adjusted.

Source: Central Statistical Office.

period of 1979 while Gross Domestic Product was 1.6 per cent lower.

These figures are likely to reinforce the complaint of businessmen that private industry is having to face most of the squeeze, while the public sector is relatively unaffected. The main contrast has been in the size of pay rises and the Government is now clearly determined to contain public sector wage rises in order to meet its borrowing and monetary goals.

Despite the pressures on

industry, the gross trading profits of industrial and commercial companies seem to have been more resilient than suggested by some recent pessimistic forecasts. After adjusting for the rise in stock values caused by inflation, such profits rose by £361m to £6,464m between the first and second quarters.

This rise probably presents too favourable a position since the total includes the rapidly rising profits of companies producing North Sea oil, and is before deduction of a rising figure for interest payments on borrowings.

Consequently, the underlying profitability of manufacturing industry is likely to have deteriorated considerably this year, as has been suggested by recent results from companies such as GKN.

Even after the end of the British Steel strike, the gross trading surplus of public corporations dropped by a fifth between the first and second quarters to £1.5bn.

The figures also show consumer spending dropped by 2% per cent in the quarter from its earlier high level though it was still only just below last year's average figure. Fixed investment fell by 2 per cent in the period.

Tax warning, Page 8

Consumers forecast to escape worst of deepening recession

BY PETER RIDDELL

MOST leading British forecasters believe that the recession will last for at least a further 12 months and that any recovery in output towards the end of 1981 will be modest.

A survey of the main official and private-sector forecasting bodies shows broad agreement about the nature of the recession. Industry will be hit far more than in the recession of 1974-75, but consumers will feel hardly any squeeze.

Total output, as measured by real Gross Domestic Product, is projected on average to decline by 2.5 per cent this year compared with 1979, and by 0.4 per cent next year.

Strong pound

The forecasters have, in general, become much gloomier about the outlook than at the end of last year when they still expected the recession to be shorter and shallower than that of the mid-1970s.

The present more pessimistic view reflects the extent of the squeeze being applied by the strong pound and by the loss of competitiveness in the past two years.

These same factors are benefiting the consumer. Average living standards, as measured by real personal disposable income, are expected, at worst, to be only slightly below current record levels following the 15 per cent jump between 1977 and 1979.

Comfort

Consequently, consumer spending may show little change overall over 1980 and 1981 as a whole, in contrast to the 34 per cent fall between 1973 and 1975.

There is also some comfort for the Government in the projection that any overshoot on public sector borrowing in 1980-81 may be only £1bn or so above the forecast level of £38bn.

The forecasters are generally confident that the 12-month rate of retail price inflation will fall over the next year from the current figure of 16.3 per cent, though there is disagreement about the extent of any slowdown, with a range of between 9% and 14% per cent projected for the end of 1981.

Details, Page 9

THE LEX COLUMN

Basic strengths at Tarmac

Index fell 7.1 to 487.3

of stock appreciation and excluding North Sea oil and gas, was forecast to fall from a normal level of some 10 per cent to no more than about 3 per cent. According to the Central Statistical Office, however, this collapse is just not happening. Not only has the CSO revised upwards its estimates for past profits, but the first calculation for the second quarter of 1980 published yesterday (admittedly including North Sea oil) shows no great change from the experience of recent quarters.

Finance costs are up 70 per cent to £5.8m, which suggests that working capital has got out of hand, and indeed the management has begun "vigorous action" to cut back. High interest rates have made farmers reluctant to make forward purchases of fertilisers and agrochemicals, so that this side of Fisons' business has lost net trading profits of some £5.3bn in the first half of 1980 against £8.2bn in the same period of 1979. This does represent a slight easing from 10.5 to just under 10 per cent of gross domestic product, but it is scarcely the nosedive prophesied.

One crucial point in explaining the puzzle is that the national income definition of trading profits leaves out the little matter of interest payments. The CSO regards these as a share of profits rather than a cost, a view which companies will hardly sympathise with as 16 per cent bank base rates bite deeply into their profit and loss accounts.

It is also relevant that the present squeeze is a selective one, concentrated on the manufacturing sector. And with stock appreciation sharply lower in the second quarter (reflecting the slowdown in private sector inflation) the liquidity squeeze began to ease a little. In the April-June period net bank borrowing by industrial and commercial companies eased to £0.75bn from £2.5bn in January-March. Generally it looks as though companies have taken quite effective measures to protect themselves; but if these measures include steps like dividend cuts the stock market may find it hard to tell the good news from the bad.

Big changes planned by BP Chemicals

By Ray Daftor, Energy Editor

MAJOR CHANGES are planned for BP Chemicals, British Petroleum's loss-making chemicals subsidiary. They will include further cuts in staff, a move away from production of bulk chemicals, and development of overseas business.

The company, which over the past few weeks has announced more than 1,000 redundancies, 700 of them in South Wales, among its 16,000-strong workforce, has been hit badly by the recession in the chemicals industry.

Its plants are being operated at about 55 per cent of capacity and only technical constraints prevent many production rates being lowered further.

Earlier this month BP Chemicals announced an overall operating loss of £2m for the first half of this year. The deficit on UK operations was £34m.

Mr. Len Burchell, retiring managing director, says in a message to staff today that the group is facing its "biggest-ever challenge." All operations are being examined on a product-by-product basis.

BP would give no details of its plans, but low-volume specialised chemicals are distributed in the plastics, pharmaceuticals and agrochemicals markets.

Mr. Burchell says that concentration on bulk chemicals was the company's original charter from its British Petroleum oil parent, which was looking for a captive outlet for naphtha.

This policy had proved to be a weakness in today's circumstances. "That weakness can only be cured by a substantial change of company shape," he says.

Vulnerable

As a remedial step, BP Chemicals is planning to modify its ethylene plant at Grangemouth, Scotland, to use less naphtha, as a raw material, and a higher proportion of heavy gas feedstock.

It was also possible, Mr. Burchell says, to increase the use of gas at the cracker at Wilton, Teesside, which is jointly owned with Imperial Chemicals Industries. To these ends, BP Chemicals hopes to gain access to gas carried in the proposed North Sea gas-gathering pipeline.

Mr. Burchell says the company is also "vulnerable" because 65 per cent of its sales are in the UK and thus tied to the domestic economy. The chemical industry say this as a hint that BP Chemicals would be following its recent European acquisitions with a further expansion of overseas interests.

On redundancies, Mr. Burchell says that "numbers must be reduced substantially," and there is an overriding need to bring BP Chemicals out of the recession as a "sound, progressive and leaner company."

It is expected that substantial cuts are to be made in the company's London headquarters, which currently accommodates 700 staff.

New fuel investment, Page 8

U.S. industrial group makes 'acceptable' offer for Fodens

BY JOHN GRIFFITHS

RECEIVERS at Fodens, the Cheshire lorry manufacturer, said yesterday they had had an "acceptable" offer for the company as a going concern.

It has been made by PACCAR Inc. of Seattle, an industrial group whose interests include the manufacture of Kenworth and Peterbilt heavy-duty trucks. These occupy a similar niche at the premium end of the North American lorry market as Fodens in the UK.

Fodens is expected to continue to build its existing range of lorries for the UK and Europe, but in addition Kenworth models are likely to be manufactured at the plant.

PACCAR had been looking for a base from which to expand into Europe for some time. Before Fodens came on the market it had been investigating European sites for assembly from U.S.-produced kits.

PACCAR is believed to have been attracted to Fodens primarily because of its modern assembly facilities, which are being used at only 26 per cent of their annual single-shift capacity of about 6,000 units a year.

On a two-shift system, capacity could be almost doubled to 10,000 units a year and the site has room for further expansion.

PACCAR's offer was welcomed last night by the 2,000 workforce. Mr. Richard Phillips, Fodens' general manager of marketing, described it as offering "an outstanding solution" to Fodens' problems.

Apart from trucks, PACCAR's interests include the manufacture of railway and mining equipment. Last year it reported net profits of about \$120m (£50m).

World accounting norms sought

BY MICHAEL LAFFERTY, BANKING CORRESPONDENT

THE International Accounting Standards Committee, the body which seeks to set international corporate accounting standards, has offered to co-operate with the United Nations in setting accounting and disclosure rules for multinational companies.

The committee, which is backed by the professional accounting bodies of most Western countries, is planning a similar overture to the Organisation for Economic Co-operation and Development, the third international body which has sought to repair the standard of multinational companies' accounts in recent years.

The committee's moves come

as the United Nations is drafting a code of conduct on disclosure for multinationals. They will be submitted to the UN committee to submit periodic progress reports to the UN body.

In a separate move, the committee has asked member bodies to make formal approaches to 10 leading multinationals in each country requesting that they make reference to international accounting standards in their annual reports and accounts.

Few multinationals do this, and the committee is concerned that initial support from stock exchanges around the world has produced little tangible improvement in companies' accounts.

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Continued from Page 1

Gulf war

Gulf. London underwriters in insurance companies and at Lloyd's are planning to increase insurance premiums on cargoes in ships travelling to Iran by 300 per cent.

Earlier this year, insurance companies quadrupled the war rate from 10p for each £100 of the ships' value travelling to Iran.

British ships are known to be in the area of the fighting. A P and O cargo ship, the Strathline, 17,350 tonnes, was reported to have been hit by bullets over the weekend.

Continued from Page 1

Massey

will be invested. An additional \$100m is in sight. There remains a gap of U.S.\$200m with only one apparent means of filling it — involvement by governments.

Massey needs the equity finance to offset U.S.\$172m of debt whose interest costs have led to operating losses and whose bank covenants will now almost inevitably be breached on November 1.

Tax change on traded options

By Ian Rodger

THE Inland Revenue has made a significant tax concession to the traded options market.

The writer (or seller) of a traded option, which gives the buyer right to purchase shares at an agreed price at a later date, will now be able to claim capital gains tax relief on the cost of a subsequent purchase of another option to close the initial position.

Mr. Nicholas Goodison, Stock Exchange chairman, said: "This change, together with the action already taken by the Government in the Finance Act, clears the way for traded options to become a more important force in the UK stock market."

The Stock Exchange has modified its regulations on option writing after several months of talks with the Inland Revenue, which has confirmed the tax interpretation.

The 1980 Finance Act abolished the provision whereby a traded option was treated as a wasting asset for capital gains tax purposes. As a result of this change, the full acquisition cost is allowable in computing the gain or loss which arises on disposal.

The change applied to options abandoned or otherwise disposed of after April 5, 1980.

Weather

UK TODAY

CLOUDY start with showers, but brightening later. London, S.E. and N. England, E. Midlands.

Rain at first, dry later. Max 18C (64F).

S. and W. England, Wales, S.W. Scotland, Ulster.

Showers, heavy in places. Max 18C (64F).

N.E. Scotland, Orkney, Shetland.

Occasional rain, fog patches. Max 14C (57F).

Rest of Scotland.

Rain, clearing from west. Max 15C (59F).

Outlook: Dry in south-east, showers in north-west. Temperatures normal.

WORLDWIDE

Yesterdays